

# NAFTA

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HEARING  
BEFORE THE  
SELECT COMMITTEE ON INTELLIGENCE  
OF THE  
UNITED STATES SENATE  
ONE HUNDRED THIRD CONGRESS  
FIRST SESSION  
ON  
NAFTA

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THURSDAY, NOVEMBER 4, 1993

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Printed for the use of the Select Committee on Intelligence



U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1995

87-715

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For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402  
ISBN 0-16-046907-4

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THURSDAY, NOVEMBER 4, 1993

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
*Washington, DC.*

The Select Committee met, pursuant to notice, at 2:35 p.m., in room SD-628, Dirksen Senate Office Building, the Honorable Dennis DeConcini (chairman of the committee) presiding.

Present: Senators DeConcini, Kerrey of Nebraska, Bryan, Graham of Florida, Baucus, Warner and D'Amato.

Also Present: Norman Bradley, Staff Director; David Addington, Minority Staff Director/Counsel; Britt Snider, Chief Counsel; and Kathleen McGhee, Chief Clerk.

Chairman DECONCINI. The Select Committee on Intelligence will come to order.

We meet today in open session in order to hear the views of the Intelligence Community and the private sector on the impacts of the North American Free Trade Agreement. An open hearing on NAFTA is important for several reasons: Our national security can no longer be defined strictly in military terms. Our national security is affected by developments throughout the hemisphere, especially those near our border and those affecting our economic opportunities and our position in the global market. An assessment of the relationship between NAFTA and national security must be a part of the NAFTA debate. I have great respect for the professionalism of our intelligence analysts, and I am confident that their input today will give us an objective view of NAFTA's implications on our relationship with Mexico and Latin America.

Our first witness today will be Richard Neu, the National Intelligence Officer for Economics, who will present the views of the Intelligence Community on NAFTA. Mr. Neu will not be available for questions for Mr. Woolsey has advised us that they do not want the Agency involved in policy matters, only to make a report as to their analysis. He will be followed by three witnesses from the private sector: Mr. William Rhodes, the Vice Chairman of Citicorp/Citibank; Ambassador Ambler Moss, the former U.S. Ambassador to Panama and currently Director of the North-South Center at the University of Miami; and Andrew Reding of the World Policy Institute. I want to thank all of you in advance for being here.

Former Mexican President de la Madrid and the present President, President Salinas, have undertaken courageous economic reforms in Mexico by privatizing state-owned enterprises, deregulating foreign investment, reaching a debt service agreement with Mexico's commercial creditors, and opening the Mexican economy

to foreign trade and investment. The economic changes they have instituted have restructured the Mexican economy from one plagued by inefficiency and debt, to one experiencing real growth. These are precisely the types of changes that, for the past 45 years, the United States has attempted to persuade countries like Mexico and around the world to undertake.

These reforms have great significance, not only for Mexico, but also for Americans in terms of export opportunities. U.S. exports to Mexico have increased 228% since 1986. At least 700,000 American jobs depend on our trade with Mexico—275,000 of which have been created in the last two years. However, we must address these historic changes. One reason why the United States has gone from a \$5.7 billion trade deficit with Mexico in 1987 to a \$5.6 billion trade surplus in 1992 will come crumbling down if NAFTA is not implemented and agreed upon by the Congress of the United States.

President Salinas has expended a great deal of political capital in negotiating NAFTA and convincing the Mexican people of the importance of improving relations with the United States. Bilateral cooperation on a number of issues including narcotics, the environment, and regional crises has greatly improved during President Salinas and President de la Madrid's terms. This cooperation represents a historic and positive change in U.S.-Mexican relations, which, in the past, have been criticized and also characterized by mistrust. This Senator has been one of the big critics prior to the change in the regimes by President de la Madrid.

While President Salinas has had great success in achieving reform, there are clearly forces in Mexico who oppose not only the economic reforms which have been undertaken, but also the improved ties and cooperation between Mexico and the United States. I hope we will address today the significance of NAFTA for these aspects of our relations with Mexico.

Several other Latin American nations have instituted far-reaching economic and political reforms and are anxious to improve trade relations with the United States as well. I hope our witnesses will further enlighten us on the significance which NAFTA holds for our relations with these nations, and on the importance of NAFTA for furthering the changes which are in the best economic and political interests of the United States.

Senator Warner will be here shortly. I will yield to the Senator from New York, Senator D'Amato.

Senator D'AMATO. Thank you very much, Mr. Chairman. I am going to ask that my full text be placed in the record as if read in its entirety.

Chairman DECONCINI. Without objection.

[The statement of Senator D'Amato follows:]

#### OPENING STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I want to begin by thanking you and our distinguished Vice Chairman for scheduling this hearing on this vitally important topic. I look forward to this opportunity to learn the views of this panel of very knowledgeable witnesses.

I am concerned about NAFTA because I am afraid that it will cost U.S. jobs. One way we will lose jobs is by businessmen deciding to lay off American workers and close American plants. I am afraid that NAFTA will simply allow companies to move their plants to Mexico where they can hire cheap Mexican workers to replace higher-wage Americans.

The other way we can lose jobs—and this may be the most serious threat—is by creating another way Japanese and other foreign companies can get around U.S. trade laws. This is called "circumvention."

I am most concerned that Japanese and other foreign companies will use Mexico, if NAFTA is approved, as a platform from which to dominate more American markets. Japanese attacks on whole American industries are now legendary.

NAFTA will cut tariffs and reduce controls on a range of Mexican products. What if these "Mexican" products are really Japanese products assembled in Mexico? What if the Japanese own the Mexican companies? The Japanese are already very able to avoid and evade restrictions intended to level the playing field between our two countries. But with NAFTA, I fear that they will gain not just a new loophole through, but an economic superhighway around, limits that we created to save American jobs.

I don't want to take up any more of the Committee's time with my statement. I look forward to hearing the views of our witnesses.

Thank you.

Senator D'AMATO. Let me just touch on one point that I try to make. I am very much concerned about the issue of circumvention. We've been faced with that by the Japanese and others. We have not been able to deal with it. Previous Administrations have been horrendous, to be quite candid with you, in attempting to deal with obvious cases of circumvention of our trade laws.

What I am very much concerned about is that there will be those—Japanese and others—who will see Mexico as a platform by which to continue those policies of circumvention. And there is nothing to allay those fears. No one has given me anything to deal with that. So I see plants being assembled in Mexico, creating an environment by which once this agreement is approved, to really bring about circumvention, both from American companies and those foreign companies who now have an opportunity to circumvent tariff laws which they now face. And so the Japanese, instead of paying 10% or 15% or 25% on certain vehicles, will simply use this as a platform and have what we call phantom plants. These are really nothing more than employing low-skilled, low-paid people putting together vehicles in an assembly line, assembling the parts. Trying to prove one of those cases in the International Court as called for will take many, many years, and the American businessman will be out of business by the time they prove that. So that's something that has not to my satisfaction been answered. And I believe that we just lay ourselves open for that kind of circumvention attack by the Japanese and others, using Mexico as the launching pad.

Thank you, Mr. Chairman.

Chairman DECONCINI. I yield to the Ranking Member, Senator Warner.

Vice Chairman WARNER. Just a very brief statement, Mr. Chairman.

When we decided, the two of us, to hold this hearing, I mention to you my concern to get into our record what impact if any—and I repeat, what impact if any—NAFTA will have on the ever increasing flow of drugs now coming across the border between Mexico and the United States. That flow is contributing to perhaps the biggest problem we've got in this country, in terms of law enforcement, in terms of health, in terms of rising public expenditures.

And the Chairman and I have been working on this. We have some testimony presently in the record, and we will continue to receive that testimony in the course of these hearings.

Chairman DECONCINI. Thank you.

The Senator from Nebraska, Senator Kerrey.

Senator KERREY of Nebraska. Mr. Chairman. I want to thank you and the distinguished Senator from Virginia for calling this hearing and allowing it to occur in the open. We held an earlier closed hearing of NAFTA. I said at the time that I thought that if we can protect sources and methods, that it would be desirable to hold this hearing and this analysis in the open so that the public could listen in.

Intelligence, it seems to me, has always served a small group of policymakers who, for reasons of need to know, have made important strategic decisions. But on a broad issue like NAFTA which will affect every American, it's the American citizen who is the ultimate policymaker, and it is we who are their surrogates.

With the end of the Cold War, a new openness is dawning in the world of intelligence. Our challenge is to make intelligence more useful to our citizens, the people that paid for it. And while we are going so, continue to protect the collection methods and activities that are essential to our security. Today's hearing in many ways is a step in that direction.

We generally and as a rule equate intelligence as spying. But the intelligence budget also funds analytical centers that are staffed with experts of the caliber associated with universities, think tanks, and major corporations. They can match their Ph.D.'s against anybody's but they are also practical people who can make tough up or down calls.

In my experience, they make these calls on the evidence, not on what their bosses or the President, or the Congress want to hear. Mr. Neu, you represent them here today, but I suspect you would be the first to say that intelligence analysis is the effort of a world class group.

The analysts often analyze long term impacts of actions or event, and that, in my view, is what's been lacking in the NAFTA debate. Too often many of us have been discussing NAFTA as an arithmetic problem, a zero-sum game, trying to figure out whether the job losses on the Mexican side or on the U.S. side. Too seldom we have been discussing this as an evolution in our relations with Mexico and with all of Latin America. Too few of us discussed it in terms of our development as a trading country.

So I welcome this opportunity, Mr. Chairman, to consider some of the long term effect that NAFTA will have, and to consider the effects of the defeat of NAFTA as well. Because I am convinced that the consequences, either way, will be far-reaching.

For example, if NAFTA goes in effect. I am confident that the agriculture sector of the Great Plains, which I represent, will see a big increase in the market share in Mexico. I personally think that is great. But the question is whether or not Mexican agriculture will be able to adjust to the competition. What will be the impact on the campesinos that currently farm the Mexican agricultural system. Is the Mexican Government prepared for rural migration to and already crowded city. That's the kind of unanticipated consequences, Mr. Chairman, I hope to hear about today.

Let me offer one more example of potential long term impact. For the last few years Mexico an other Latin America countries have

been making wrenching changes in their economies and their political systems. They have been privatizing and democratizing and even trying the boldest change of all, starting to replace the rule of force with the rule of law. They been doing these things because they see in our example that this is the best way to freedom and is also the best way to prosperity.

My question is therefore, what will be the impact on our relations with our hemisphere if by voting against NAFTA we say to this country, "We know we told you to make these changes, but we don't want to trade freely with you. We don't want to compete with you as equals."

Mr. Chairman, I look forward to some serious discussion this afternoon about the impact on our relations with Mexico and all of Latin America and some of the long term potential changes in that relationship.

Chairman DECONCINI. Thank you, Senator.

The Senator from Florida, Senate Graham.

Senator GRAHAM of Florida. Thank you Mr. Chairman.

I have a full statement that I would like to put in the record but a few comments first to commend you for holding this hearing as has been said by others. I think it is very important that on an issue of broad public policy much as this, that the public of America have the benefit of the best analyst of the implication of the decision that is before us.

I think it is important that we face this issue looking forward and not looking backward. Much of the debate that has gone on in the past is as if were attempting to recapture the 1950's and 60's and freeze them for all time. That is not the reality of the options that are available to us.

There is going to be an important set of tests early next year when several of the most important countries in Latin America hold national elections. In virtually every one of those elections a key issue will be whether the nation should continue forward with market based economic principals and expansion of the democracy, institutions that will protect to human rights that will decentralize decisionmaking or whether there should be a return to the previous era of highly nationalistic import substitution policies that essentially attempted to maintain a mercantilist economy. Those will be basic questions in virtually everyone of those national elections and what happens on this issue will have a significant effect on how those elections will go.

I hope that in the course of today's discussion that we will have a chance to talk about what happens after NAFTA; assuming it is adopted, how do we move to expand the benefits that we think will flow from NAFTA to a hemispheric basis. We are taking quite a different path to continental consolidation than that that has been taken by the Europeans. I would hope that we have some discussion of the implications of the different approaches that we are taking and what we should be sensitive to as we commence the next steps.

I appreciate all of those who are going to share their wisdom with us and make us better prepared to make the decisions that are before us.

[The statement of Senator Graham follows:]

## OPENING STATEMENT OF SENATOR GRAHAM OF FLORIDA

Mr. Chairman, I appreciate very much your calling this hearing today on the North American Free Trade Agreement.

Our purpose today is to examine an issue which I believe has not received the attention it deserves. And that is the impact the passage or the rejection of the NAFTA will have on our relations—not only with Mexico—but with the rest of Latin America. I believe this is an appropriate issue for the Intelligence Committee to examine.

Let there be no mistake about it, Mr. Chairman, our Latin neighbors are watching closely—very closely—to see how we define our economic policy toward this region.

There is a great deal riding on our decision. We face a watershed period in our relations with the rest of the Hemisphere—relations that have not always been smooth.

Our decision on the NAFTA will have a tremendous impact for years to come on a region that has made enormous strides in consolidating democratic government and open economies.

Who would have imagined, 10 years ago—during the midst of the debt crisis—that today we would be discussing a region that has made such impressive economic progress. We have all benefitted. How we vote on the NAFTA will clearly have an impact on whether that progress will continue.

Mr. Chairman, I look forward to listening to the views of our witnesses on this important issue.

Chairman DECONCINI. Thank you, Senator Graham.

Mr. Neu, you may proceed, thank you.

[The statement of Mr. Neu follows:]

## PREPARED STATEMENT OF C. RICHARD NEU

Thank you Mr. Chairman. I will begin by addressing the political and economic implications for Mexico if NAFTA is implemented next year. I will also discuss the implications for Mexico, and for U.S. relations with other Latin American countries, if NAFTA is rejected by the Congress.

My presentation reflects the views of the entire intelligence community and is drawn from national intelligence assessments we completed this year. My remarks include virtually all of the key themes and conclusions of our classified analysis.

## NAFTA'S LIKELY IMPACT IN MEXICO

First, I will address the political implications for Mexico if NAFTA is implemented. In that event we expect that the chances of the candidate of the ruling party—the Institutional Revolutionary Party or PRI—to win the elections in August 1994 would be enhanced. NAFTA is popular in Mexico, and the credibility of the Salinas administration has been closely linked to the agreement for more than 3 years now. Over time, NAFTA's implementation would be likely to facilitate greater competitiveness in Mexico's political system.

If implemented, NAFTA would also stimulate greater economic change and growth in Mexico. It could push annual growth rates to 3 or 4 percent by 1995 and help raise living standards, increase efficiency, and promote job creation. Growth would be driven by private-sector investment, as foreign firms took advantage of new opportunities and Mexican firms continued to modernize plant and equipment.

Under NAFTA, foreign capital inflows that have averaged about \$12 billion annually over the last 3 years would probably continue offsetting large trade and current account deficits. Capital infusions would probably shift largely from portfolio investment to investment in plants, equipment, and other infrastructure: Mexican merchandise exports would rise substantially. Imports, primarily from the United States, also would continue to increase as Mexican incomes rose and industry modernized.

But NAFTA would also impose tough and durable challenges for Mexican leaders. It would initially threaten inefficient businesses, displace many workers, and could reinforce social, economic, and geographic inequities. For example, adjustments would be necessary in the agricultural sector which accounts for only 12 percent of G.D.P. but employs over a quarter of the work force.

## THE IMPACT IN MEXICO IF NAFTA IS NOT IMPLEMENTED

Mr. Chairman, I will now turn to our assessment of the implications for Mexico if NAFTA is not approved by the Congress.

Mexican capital and equity markets would be jarred, and pressures on the peso would increase, particularly given the current weakness of the economy. The consensus among forecasters we have consulted is that G.D.P. growth next year would be 1 to 2 percentage points lower than this year—that is, growth would be close to zero. But we believe that Mexican leaders would be able to manage the immediate economic impact.

The Salinas government probably has developed economic contingency plans to avoid a more serious downturn if NAFTA is rejected. For example, it could raise interest rates to stem capital flight and accelerate plans for further deregulation and the adoption of a liberalized foreign investment law. And the Mexican Government would be likely to promote commercial relations with Europe and Asia in an attempt to compensate for slower economic integration with the United States and Canada.

It is important to note, moreover, that another financial crisis like the one that began in Mexico in 1982 is highly unlikely. Mexico's economy is stronger and more diversified than it was in the early 1980's.

The structural reforms of recent years have provided it with greater resilience and potential.

High foreign exchange reserves provide the Government with the latitude to maintain a stable exchange rate and to ride out swings in capital markets.

Mexico is less vulnerable to external shocks such as volatile interest rates and falling oil prices.

The repercussions from NAFTA's rejection by the United States would be more complex politically. It would be widely seen in Mexico not just as a United States repudiation of NAFTA, but as a rejection of Mexico itself. Anti-NAFTA and anti-reform elements would gain greater legitimacy and other aspects of United States-Mexican relations might be affected.

For example, with respect to environmental cooperation, Mexican leaders might decide to shift resources and spending on environmental clean-up and other programs away from the northern border regions to Mexico City and other large urban areas.

Mexican leaders would blame the United States if NAFTA failed but they probably recognize that too harsh a tone would discourage U.S. and other foreign investors. The most resonant criticism would be leveled by leftist and populist opponents of NAFTA.

In addition, Mr. Chairman, nationalistic sensitivities in Mexico are strong and already to some extent have been offended by aspects of the NAFTA debate in the United States. Many Mexicans would be likely to respond critically to any aspects of the NAFTA debate in the United States that they considered demeaning to Mexico.

#### REGIONAL IMPACT

Finally, NAFTA's rejection by the United States would have repercussions on U.S. interests through most of the Latin American countries. Many regional leaders would conclude that the prospects for free trade in the region were drastically reduced and that the U.S. places diminished priority on supporting their efforts to implement export-oriented growth policies and internal reform programs. Most countries would of course maintain close relations with the United States if NAFTA were rejected, but a number would become more resistant to U.S. entreaties to enact intellectual property rights legislation, to remove foreign investment restrictions, and to deepen their economic restructuring.

Regional governments that have taken the boldest steps toward domestic economic reforms and trade liberalization are the strongest NAFTA supporters. They view expanded access to the U.S. market and closer regional integration as an essential part of their comprehensive restructuring plans designed to build solid foundations for longer-term economic growth.

Political and economic interests, especially in Chile, Argentina, Venezuela, and Colombia, are favorably disposed toward NAFTA and free trade. They view NAFTA's promise closer economic ties with the U.S. as a major boost to their free market reform programs and would see its defeat as a sign of U.S. disengagement from the region. They would probably also view NAFTA's rejection as a harbinger of renewed protectionist sentiment in the United States.

Thank you Mr. Chairman.

STATEMENT OF C. RICHARD NEU, NATIONAL INTELLIGENCE  
OFFICER FOR ECONOMICS

Mr. NEU. Thank you, Mr. Chairman.

In my remarks today I will address the political and economic implications for Mexico if NAFTA is implemented next year. I will also discuss the implications for Mexico, and for U.S. relations with other Latin American Countries, if NAFTA is rejected.

My presentation reflects the views of the entire Intelligence Community and it is drawn from National Intelligence Assessments that we have completed within this year. My remarks include virtually all of the key themes and conclusions that are to be found in our classified analyses.

First, I will address the political implications for Mexico if NAFTA is implemented. In that event, we expect that the chances of the candidate of the ruling party, the Institutional Revolutionary Party, or the PRI, to win the election in August of 1994 would be enhanced. NAFTA is popular in Mexico, and the credibility of the Salinas administration has been closely linked to the agreement for more than three years now. Over time, NAFTA's implementation would be likely to facilitate greater openness and competitiveness in Mexico's political system.

If implemented, NAFTA would also stimulate greater economic change and growth in Mexico. It would push annual growth rates to three or four percent by 1995, and help raise living standards, increase efficiency, and promote job creation. Growth would be driven by private sector investment, as foreign firms took advantage of new opportunities and Mexican firms continued to modernize plant and equipment.

Under NAFTA, foreign capital flows that have averaged about 12 billion dollars annually over the last three years would probably continue to offset large trade and current account deficits. Capital infusions would probably shift from portfolio investment to direct investment in plant, equipment, and other infrastructure. Mexican merchandise exports would rise substantially. Mexican imports—primarily from the United States—would also continue to increase as Mexican incomes rose and industry modernized.

But NAFTA would also impose tough and durable challenges for Mexican leaders. Initially it would threaten inefficient businesses, displace many workers, and could reinforce social, economic, and geographical inequities. For example, major adjustments would be necessary in the Mexican agricultural sector which accounts for only 12 percent of GDP, but employs over a quarter of the Mexican work force.

Mr. Chairman, I will now turn to our assessment of the implications for Mexico if NAFTA is not approved by the Congress.

Mexican capital and equity markets would be jarred, and pressures on the peso would increase, particularly given the current weakness of the Mexican economy. The consensus among forecasters we have consulted is that GDP growth next year would be 1 to 2 percentage points lower than it is this year—that is, growth would be near zero or slightly negative. But we believe that Mexican leaders would be able to manage the immediate economic impact of a NAFTA rejection.

The Salinas government has probably developed economic contingency plans to avoid a more serious downturn in NAFTA is rejected. For example, it could raise interest rates to stem capital flight and accelerate plans for further deregulation and the adoption of a liberalized foreign investment law. And the Mexican government would be likely to promote commercial relations with Europe and Asia in an attempt to compensate for slower economic integration with the United States and Canada.

It is important to note, moreover, that another financial crisis like the one that began in Mexico in 1982 is highly unlikely. Mexico's economy is stronger and more diversified today than it was in the early 1980's.

The structural reforms of recent years have provided it with greater resilience and potential.

High foreign exchange reserves provide the government with the latitude to maintain a stable exchange rate and to ride out swings in capital markets.

Mexico is also less vulnerable today to external shocks such as volatile interest rates and falling oil prices.

The repercussions from NAFTA's rejection by the United States would be more complex politically. It would be widely seen in Mexico not just as a U.S. repudiation of NAFTA, but as a rejection of Mexico itself. Anti-NAFTA and anti-reform elements would gain greater legitimacy in Mexico and other aspects of U.S.-Mexican relations might be affected.

For example, with respect to environmental cooperation, Mexican leaders might decide to shift resources and spending on environmental clean-up and other programs away from the Northern border regions to Mexico City and to other large urban areas.

Mexican leaders would blame the United States if NAFTA fails but probably they would recognize that too harsh a tone would discourage U.S. and other foreign investors. The most resonant criticism would be leveled by leftist and populist opponents of NAFTA.

In addition, Mr. Chairman, nationalistic sensitivities in Mexico are strong and already to some extent have been offended by aspects of the NAFTA debate in the United States. Many Mexicans would be likely to respond critically to any aspects of the NAFTA debate that they consider demeaning to Mexico.

Finally, NAFTA's rejection by the United States would have repercussions on U.S. interests in most of the Latin American countries. Many regional leaders would conclude that the prospects for free trade in the region were drastically reduced and that the U.S. places diminished priority on supporting their efforts to implement export-oriented growth policies and internal reform programs. Most countries would of course maintain close relations with the United States if NAFTA were rejected, but a number would become more resistant to U.S. entreaties to enact intellectual property rights legislation, to remove foreign investment restrictions, and to deepen their economic restructuring.

Regional governments that have taken the boldest steps toward domestic economic reforms and trade liberalization are the strongest NAFTA supporters. They view expanded access to the U.S. market and closer regional integration as an essential part of their

comprehensive restructuring plans designed to build solid foundations for longer-term economic growth.

Political and economic interests, especially in Chile, Argentina, Venezuela, and Colombia, are favorably disposed toward NAFTA and free trade. They view NAFTA's promise of closer economic ties with the U.S. as a major boost to their free market reform programs and would see its defeat as a sign of U.S. disengagement from the region. They would probably also view NAFTA's rejection as a harbinger of renewed protectionist sentiment in the United States.

Thank you Mr. Chairman.

Chairman DECONCINI. Thank you Mr. Neu.

Vice Chairman WARNER. Mr. Neu, I was just discussing with the Chairman that I will provide for you a letter formally requesting from the Director and yourself such material as may be publicly disclosed with regard to the impact of my first question, that is, the drug problem.

Mr. NEU. Yes sir, we would be happy to provide that.

Chairman DECONCINI. Let me add, Mr. Neu, that I was hopeful that your statement would address that issue and it doesn't. I joined the Ranking member and hope that the agency can provide additional material here for public consumption regarding the analysis, whatever is available, and that it can be made public as it relates to the flow of drugs and the impact, if any, that NAFTA would have on it.

Mr. NEU. Yes sir, we will do our very best to provide open material.

Vice Chairman WARNER. It's very clear that the flow of drugs across that border—this the Committee has established—has increased every year for the last five years.

Chairman DECONCINI. Thank you.

Mr. NEU. Thank you.

Chairman DECONCINI. Mr. Moss, Mr. Reding, Mr. Rhodes, would you please come forward.

Ambassador Moss, thank you. We welcome you and compliment you for your fine work representing the United States in Panama for a long period of time. We enjoyed working with you. You may lead off, please.

[The statement of Mr. Moss follows:]

PREPARED STATEMENT OF AMBLER H. MOSS, JR.

Mr. Chairman and Members of the Committee, more than three years after the leaders of the United States, Canada, and Mexico resolved to create a North American Free Trade Agreement (NAFTA), the fate of the final product is still in doubt. Divisions within the Congress of the United States represent more than a mere controversy over proposed legislation. Seen within a broader context, what is at stake is the very essence of U.S. present and future trade policy in its largest dimensions.

Mexico, Latin America, and the rest of the world are watching the process with keen interest. Will the United States be able to articulate, definitively, a comprehensive international trade policy? Will this relatively modest free trade agreement—more like a managed trade arrangement with its two thousand pages of sector-by-sector phase-ins—be the first wedge for the United States in opening up world trade in a manner unlikely to be completed by successive rounds of GATT negotiations?

Mexico and the countries of Latin America and the Caribbean see an important stake in the completion of NAFTA. To them, it is a major indication of what the post-Cold War policy of the United States in the Western Hemisphere will be. From the creation of the Organization of American States in Bogotá in 1948 until the fall

of the Berlin Wall in 1989, U.S. policy toward the region was perceived by its Southern neighbors, usually correctly, as being concerned for the most part with security issues. Even the Alliance for Progress came into being against the backdrop of Castro's Cuba. Certainly, the objective of "no more Cubas" provided its guiding impulse. Now, free trade and NAFTA more closely resemble what Latin America had in mind all along when it asked, at the Bogotá conference, whether there would be a Marshall Plan for the Western Hemisphere. To the benefit of all concerned, however, we now meet as partners focused on trade, not aid.

Mr. Chairman, I have just returned from a trip to Argentina and Chile. The prestigious group of business leaders I accompanied, the International Chapter of the Young Presidents Organizations, met with the presidents of those countries, as well as with many of their chief economic advisers. Each president made it absolutely clear that NAFTA was a crucial test of U.S. intentions concerning its relations with the Western Hemisphere. President Carlos Menem said that failure to implement NAFTA would be "extremely negative" for all of the Americas. President Patricio Aylwin's chief economic adviser said, bluntly, that it would indicate whether the United States was serious enough to match actions with words.

Chile and Argentina are dramatic examples of Latin American countries that have undergone profound, historic transformations from state-dominated, protected economies to open markets and reliance on the private sector as the engine of development. Free trade arrangements are an integral part of their development strategies for sustained success. Not all of Latin American free trade strategies are alike, but they have one common denominator—all of Latin America looks to the United States for leadership in opening Western Hemisphere trade.

The problem, however, is that NAFTA is not controversial in the Congress as foreign policy but as domestic policy. The controversy in the Congress over NAFTA's effect on jobs is the main factor dividing members within each political party and "liberals" and "conservatives" within their own ranks.

Actually, there is not a great dispute among economists as to whether additional jobs will be created in the United States by NAFTA; the debate is over the size and timing of the increase. Moreover, as both the Bush and Clinton administrations have pointed out, Mexico's economic restructuring and tariff-lowering, which led to an increase in U.S. exports to that country from \$12 billion in 1986 to \$44 billion in 1992, created around half a million new jobs in this country. Certainly, there is no doubt that a free trade agreement of this magnitude will have its losers as well as its winners. But the opposition can best be understood in terms of local and sectoral impact rather than the overarching national interest. These concerns are linked to the correctly perceived need for the side agreements that have been achieved on environment, labor, and harmful import surges.

The new perspective announced by President George Bush in his "Enterprise for the Americas" speech of June 27, 1990, was not just a NAFTA but an eventual trade integration of the entire Western Hemisphere. President Bill Clinton, beginning with his campaign statements, endorsed that concept and incorporated it into the stated policy of his administration. This bipartisan policy—at least, at the presidential level—is reflective of two realistic understandings about global economics. The first is ample recognition of the interdependence of national economies. An ever-increasing percentage of jobs, especially the higher-paying jobs, in the United States are dependent upon foreign trade. The second is that, although no country will admit to preferring it, the world may not end up as one liberal trading economy but, for the moment, may divide into trading regions or "blocs." Should that happen, as the trend indicates it is, the United States will surely need a trading partnership to call its own. Latin America, which, on the average, buys 60 percent of its imports from the United States—the figure for Mexico is 70 percent—is the most likely place to start.

Gains in NAFTA support will eventually spill over into the entire field of a Western Hemisphere free trade area. The issue of the environment is an example. By late summer of this year, the majority of the environmental community in the United States had been won over the NAFTA, with the addition of the side agreement. The environmental community was clearly thinking beyond NAFTA. The opening of trade and the protection of the environment need not be incompatible objectives; they can be mutually reinforcing. NAFTA will be a model.

The progress already made by Mexico in terms of its environmental legislation and enforcement is impressive, although much more remains to be done. Such dramatic measures as the permanent closing of the PEMEX oil refinery in Mexico City evidences the government's will to move ahead. Simply stated, environmentalists, including the many non-governmental organizations springing up in Mexico, will have considerable leverage with NAFTA. Without NAFTA, they would have much less.

Environmentalists are among many other groups in the United States which have come to realize that free trade in the hemisphere will move forward with or without U.S. participation. The United States does not have the luxury of taking time to decide the extent to which it really favors free trade. From Mexico to the Southern Cone, a range of free trade agreements is making varying degrees of progress.

In the United States, hemispheric free trade, to which two successive presidents have subscribed, has not been specifically defined beyond NAFTA. President Bush promised President Patricio Aylwin of Chile that his country would be next in line, a promise which has been ratified by President Clinton. Neither president, however, specified whether he was talking about a separate bilateral agreement or incorporation into NAFTA through that pact's accession clause.

Yet, Mexico has not been at all tentative about its direction in free trade. It has already signed a free trade agreement with Chile and is part of the Group of Three with Colombia and Venezuela. President Salinas has indicated that, should NAFTA be rejected, Mexico will seek alternative trade accords with Europe and Japan.

Other subregional trade accords are proliferating in the hemisphere. Colombia and Venezuela have integrated more rapidly than has the Group of Three and have a free trade agreement which resembles NAFTA after years of phase-in. Central America has been hard at work on trade integration since the Nicaraguan elections of 1990 and a new protocol to the Central American Treaty of Economic Integration was signed last week in Guatemala City. El Salvador, Honduras, and Guatemala are on an even faster track within that group. Even the Andean countries, once a bastion of protectionism, statist industries, and hostility to foreign investment, have joined the free trade movement in their own subregional grouping.

The most ambitious pact of all, MERCOSUR (Mercado Comun del Sur, which includes Argentina, Brazil, Paraguay, and Uruguay), aspires to be a common market, not merely a free trade agreement. MERCOSUR may be overly ambitious, given the economic disparities of its partners, but it is serious in its objectives. Chile is an open-trade country, preferring bilateral arrangements to entry into subregional groupings, and has also made important trade alliances with the Pacific Rim. Japan has now surpassed the United States as Chile's most important trade and investment partner.

The Caribbean, with its ethnic and linguistic diversity, remains the least developed of the regional groupings. As a spur to Caribbean integration, the Bush administration signed a framework agreement not with each of the English-speaking islands but with its regional organization, the Caribbean Common Market (CARICOM). CARICOM, however, is not yet at an advanced state of integration, although a subregional grouping, the Eastern Caribbean states, is fully an open market and even has a common currency. Yet all of the English-speaking islands together comprise only about five million people, compared to a population of approximately 30 million when the Dominican Republic, Puerto Rico, Haiti, Cuba, and the other islands are taken into account.

The Caribbean region may be the only area to suffer a negative impact from NAFTA, possibly along with Central America. As the Ambassador of Jamaica to Washington, Dr. Richard Barnal, explains, the effect of NAFTA could be fourfold in the Caribbean—trade diversion, investment diversion, the relocation of present productive private investment, and an overall downturn of Caribbean economies. The results could be greater immigration pressure toward the United States, impoverishment of populations and a threat to political stability.

As you know, Mr. Chairman, Senator Bob Graham and Representative Sam Gibbons have proposed legislation (H.R. 1403) which would accord "NAFTA parity" to all twenty-four countries in the Caribbean and Central America that comprise the Caribbean Basin Initiative. This means that, for a period limited to three years, these countries would enjoy the same benefits given to Mexico, insofar as their access to the U.S. market is concerned. The time limitation is designed to push them into completing their own integration plans and acceding into NAFTA. Three years may be somewhat short for such an undertaking, but the legislation is deserving of strong support. This is not a matter of altruism; we have already clearly seen that socioeconomic conditions in the Caribbean are crucial in determining the scope of immigration patterns that impact U.S. society in many ways.

Moreover, the CARICOM countries have announced that they support the passage of NAFTA, despite its potential challenge to their economies. This is yet one more sign of the sea-change in the hemisphere in support of free trade.

There are no proposals from any Western Hemisphere government which spell out the eventual "architecture" of a Western Hemisphere Free Trade Area. It could take several forms. The most daring (and least likely) could be a hemisphere-wide "free trade conference," a sort of constitutional convention, to draw up a charter for the Americans with timetable and all. But, if NAFTA needed two thousand pages, the

inherent complexity of such a charter makes it hardly likely, at least in the near future.

A more realistic model, and one favored by Brazilian economists, is for the various subregional groupings to proceed with their own integration and eventually to merge. A third model is for individual countries, like Chile, or subregional groupings, such as the Group of Three, to accede formally into NAFTA, one by one. In that event, of course, consent would be required of all members of NAFTA (or of an already expanded NAFTA).

All of these movements, taken together, demonstrate that the United States does not control the form or speed of trade integration in the American. Although the U.S. market is the big prize for all of the countries, they will continue their present trends with or without the United States. Europe and Asia are very much attuned to the possibilities in these countries that are emerging from the debt-plagued "lost decade of development" of the 1980s.

That being said, the fate of NAFTA becomes all the more important in terms of U.S. policy goals in the hemisphere. After all, the current processes of political and economic liberalization in the Americas are something the United States sought for decades. Seen in this light, NAFTA's rejection would send a variety of negative symbolic and substantive signals to our Latin American and Caribbean neighbors.

First, there is the matter of credibility. This is summed up in the words of former Guatemalan President Vinicio Cerezo, who has said, "We've turned our countries upside down to compete in the world market . . . [but] after convincing us to embrace the free market, the United States is telling us that the free market is not good for them." From this perspective, the U.S. definition of a level playing field appears to be one that in fact tilts away from the United States: our goods flow southward, but theirs do not have access to the north.

Second, the dampening effect of the rejection of NAFTA would lower hopes for the boost to development produced by increased trade and investment throughout the hemisphere. In search of revenue for infrastructure and social needs, governments might well be tempted for political reasons to revert to patterns of inflationary public sector spending and poorly planned borrowing.

Third, although the bulk of privatization has already taken place in Latin America and it is unlikely that the far-reaching processes of economic liberalization so far achieved will be drastically modified, the rejection of NAFTA may politically weaken precisely those leaders who have been most supportive of the market reforms pursued by the United States. Political opponents offering "revisionist" policies based on various forms of economic nationalism could regain political strength. This is especially of concern in Latin America, where poverty increased significantly over the past decade—a situation not yet altered by economic restructuring. In late September, the World Bank warned that in Latin America "failures to act aggressively on poverty will likely encourage distributive conflicts, prompting discontent and perhaps even a return to populism, dirigisme, and chaos." the economic growth promised by free trade is one of the pillars of any anti-poverty strategy for Latin America.

Fourth, as has often been noted, in the world of international relations, perceptions frequently mold reality. During last month's Rio Group meeting of 11 Latin American countries, Chile's President Aylwin stated that the disposition of NAFTA is seen as "an indicator of U.S. policy toward Latin America and the Caribbean," a view that found concrete expression in a letter from the Rio Group leaders to President Clinton. The rejection of NAFTA, therefore, could reasonably be expected to sour U.S. relations with our hemispheric neighbors and to perhaps produce spill-over effects that make more difficult cooperation in such areas as drug trafficking and the environment.

Mr. Chairman, free trade is going ahead in the Americas and it is a process for which the United States can take considerable credit. The question before us now is whether we will reap the benefits of those efforts or jump off the train as it leaves the station—to the detriment of our citizens and the dismay of our neighbors.

(NOTE.—This testimony represents the personal opinion of Dean Moss; the North-South Center and the University of Miami, as academic organizations, do not take policy positions.)

#### STATEMENT OF AMBLER H. MOSS, JR.

Mr. MOSS. Mr. Chairman, Mr. Vice Chairman, Members of the Committee, my name is Ambler Moss, and I am Director of the North-South Center and Dean, Graduate School of International Studies, University of Miami. I have prepared remarks which I will

offer for the record. In addition, I have this assessment report that the North-South Center has just published with chapters by five eminent scholars, which I like to leave for the Committee files.

Chairman DECONCINI. Very good, thank you.

Mr. MOSS. I believe, Mr. Chairman, what is at issue in this NAFTA debate is the very essence of U.S. present and future trade policy with Latin America, in all of its dimensions.

The fact is that Mexico, Latin America, and the rest of the world are watching the process with keen interest. And they are asking themselves, will the United States be able to articulate, definitively, a comprehensive international trade policy for the Western Hemisphere. These countries have an important stake in the completion of NAFTA and to them it is really the major indication of the post-Cold War policy of the United States in the Western hemisphere.

Mr. Chairman, last week I was in Uruguay, Argentina, and Chile, with a group of business leaders and among other things, we met with the Presidents of all those countries, and as well as with many of their Chief Economic Advisors. Each President made it absolutely clear that NAFTA was a crucial test of U.S. intentions concerning its relations with the whole Western Hemisphere. President Carlos Menem said to us that failure to implement NAFTA would be, extremely negative, he said, for all of the Americas. President Patricio Aylwin's chief economic adviser said, very bluntly, that it would indicate whether the United States was serious enough to match its actions with its words.

Chile and Argentina, like Mexico and many other Latin American countries, have undergone all the profound, historic economic transformations which you, Mr. Chairman, well described, and with which I fully agree. Free trade arrangements are an integral part of their development strategies, and I would submit also a part of ours, in that, of course, we do hold a 60% market share of all the imports of countries in that region.

That having been said then, the fate of NAFTA, I think, becomes all the more important in terms of U.S. policy priority goals in the Hemisphere. Political and economic liberalization in the Americas are something that the United States has really sought for decades, as being its own interest as well as that of Latin America. NAFTA's rejection, I think, would send a variety of negative symbolic and substantive signals to our Latin America and Caribbean neighbors.

First of all, there is a question of credibility. Will we be able to carry through what we have been preaching for so long? This is summed up, I think, in the words of the former Guatemalan President, Venecio Cerezo, who said, we've turned our countries upside down to compete in the world market, and after convincing us to embrace the free market, will the United States be telling us that the free market is not good enough for them.

Second, I think the rejection of NAFTA would lower the hopes of boosting the developing of the Americas, which is produced by increased trade and investment throughout the Hemisphere. Governments well might be tempted, for political reasons, to revert to the old patterns of inflationary public sector spending and poorly and catastrophically planned borrowing.

Third, I think the rejection of NAFTA may politically weaken precisely those very leaders who has been most supportive of the market reforms pursued by U.S. policy. Economic nationalism could regain political strength not only in Mexico but in other countries where the consolidation of the new economic theories is far from complete, and the old hold-outs are there. This is particularly of concern in many parts of Latin America where poverty increased significantly over the past decade—that so called lost decade of the 80's. This situation has not yet been altered in the positive sense by economic restructuring.

In late September the World Bank warned that in Latin America, failure to act aggressively on poverty will likely encourage social conflicts, prompting discontent and perhaps even a return to populism, dirigisme, and chaos. The economic growth promised by free trade is one of the pillars of any anti-poverty strategy for the Americas.

Fourth, as has often been noted, in the world of international relations perceptions frequently mold reality. During last month's Rio Group of eleven Latin America countries, Chile's President Aylwin stated that the disposition of NAFTA is seen as an indicator of U.S. policy toward Latin America and the Caribbean, a view that found concrete expression in a letter from the Rio Group leaders to President Clinton.

The rejection of NAFTA therefore, would reasonably be expected to sour U.S. relations with our Hemispheric neighbors, and perhaps to produce spill over effects which would make it much more difficult to cooperate with them precisely in areas such as drug trafficking, which is always hard to get the right degree of cooperation and environment. I think in both of these areas, the passage of NAFTA and the signal that it sends are crucial to being able to pursue these other policies which are crucially important to U.S. security.

Mr. Chairman, free trade is going ahead in the Americas in a multiplicity of ways with regional arrangements. It is a process for which the United States can take considerable credit. I think the question before us is now whether we will reap the benefits of those efforts or literally jump off the train as it leaves the station, which would be to the detriment of our citizens and to the dismay of our neighbors. That is why I personally feel that the policy begun in the Bush Administration and continued in this one, of supporting NAFTA and entire Western Hemisphere free trade arrangements is one that ought to be pursued. NAFTA is an indispensable first step.

Thank you, Mr. Chairman.

Chairman DECONCINI. Thank you, Ambassador.

Mr. Reding.

[The statement of Mr. Reding follows:]

#### OPENING STATEMENT OF ANDREW A. REDING

Mr. Chairman, members of the committee: This hearing has been convened to examine the implications for broader U.S. interests in the hemisphere arising from approval or disapproval of the North American Free Trade Agreement (NAFTA) by Congress. I would like to suggest at the outset that the more fundamental question for U.S. relations with Mexico and the rest of the hemisphere is not so much what happens with the NAFTA vote itself as what follows.

Because NAFTA is on "fast track" and thus not open to legislative compromise, both sides are resorting to apocalyptic language to describe the consequences of voting the other way. Opponents argue the agreement would unravel labor and environmental standards in the U.S. and lead to further loss of good jobs to low-wage areas abroad. Supporters insist a "no" vote would be interpreted by Mexico and other Latin American countries as a sign of rejection by the United States, and would set back efforts at economic and political reform. There is substantial truth in both arguments, but only to the extent that the vote on NAFTA becomes the endpoint rather than the beginning of a new hemispheric policy.

And that is the nub of the problem: NAFTA is being treated as a substitute—a bandage, if you will—for the lack of a comprehensive and coherent hemispheric policy. Let's be honest about it: NAFTA does a reasonably good job of formalizing a more open and reliable set of trade and investment relations between the U.S., Canada, and Mexico. But NAFTA's present difficulties in Congress and with public opinion are a testament to what it does not do.

NAFTA does not specify international labor and environmental standards essential to creating a level playing field for competition. The side agreements merely seek—and very gently at that—to enforce differing national standards. In the case of labor, the right to organize free trade unions is explicitly left out. That is peculiar, since—by definition—there can be no free market without free labor; and free markets are the ostensible aim of international trade agreements such as NAFTA.

NAFTA also does not directly address the serious sociopolitical challenges confronting the hemisphere. Despite encouraging advances, civil society and democracy remain weak throughout most of Latin America. Levels of social and economic inequality are among the highest in the world. This is especially true of Mexico, despite a widespread perception of the reformist character of the government. In place of a coherent policy to address these ills, the Bush and (to date) the Clinton administration have offered NAFTA as a Band-Aid, with the promise that the economic reforms it promotes will automatically lead to democracy and respect for human rights.

#### DEBUNKING THE FALLACIES OF ECONOMIC DETERMINISM

It is ironic that even as the Marxist version of economic determinism has become thoroughly discredited, it has been replaced by a neoliberal version of the same argument. Since determinisms draw more from ideological wishful thinking than pragmatic assessments of reality, it is essential to question their premises and evaluate their conclusions in the light of the real world.

It is incontrovertible that the world's most stable democracies have majoritarian middle classes, and that those middle classes are the product of economic development. Yet there is nothing inevitable about this process. The history of Latin America provides striking testimony to the fact that market forces do not automatically produce majoritarian middle classes, nor do they necessarily give rise to stable democracies. What has been missing, I would suggest, is a framework of respect for fundamental human rights.

Freedom is indivisible. If there is a lesson to be drawn from the development of our own society, it is that social and political rights and freedoms are necessary complements to economic freedoms. We owe the existence of our majoritarian middle class not to the logic of the market, which is value-neutral, but to a series of social and political guarantees ranging from the Bill of Rights and universal suffrage to public education and labor legislation. It is no coincidence that the other countries with majoritarian middle classes—including Canada, Australia, New Zealand, Israel, Japan, and western Europe—have comparable social and political guarantees for their citizens. And it is by availing themselves of such guarantees that their citizens have secured high real wages, reducing destabilizing inequalities between rich and poor and contributing to economic growth through the expansion of purchasing power.

Absent such guarantees, there is little reason to expect meaningful improvements on the vital issues we confront in our relationships with other countries in the hemisphere.

Consider the case of Mexico. If political reform were a necessary consequence of economic reform, we should—after a decade of economic restructuring—be witnessing signs of democratization. Most fundamentally, those signs should include honest elections and the development of effective checks and balances on arbitrary executive power. By any objective measure, neither trend is underway.

Despite two highly-publicized electoral "reforms" during the Salinas administration, Mexican elections are less credible than ever. The president and his party have increased their domination of the country's top electoral commission from an abso-

lute majority to a majority of more than two to one. This majority affords the ruling party monopoly control of the electoral bureaucracy, exclusive use of the national colors in electoral symbols, and virtually exclusive access to television. It also revitalizes such reforms as the introduction of photo-identification cards and campaign spending limits, since the ruling PRI is in effect policing itself. Nothing better summarizes the real function of elections in Mexico than the fact that—by law—the federal electoral commission continues to be chaired by the minister of the interior, the cabinet officer charged with maintaining domestic order.

That order is increasingly in jeopardy as Mexicans lose faith in the electoral process. Recent gubernatorial elections have been settled not at the ballot box, but through post-electoral confrontations between the government and the opposition. In Guanajuato, San Luis Potosi, and Michoacán, mass protests have paralyzed state governments and forced the removal of "elected" PRI governors. A similar process is now unfolding in Nayarit, where another embattled governor has been resorting to mass arrests (including the arrest of a priest) in an effort to curtail protests that have prevented him from entering the statehouse. Though these disturbances at the state level are attracting little notice in the U.S., they serve as warning of what could happen in Mexico City following the presidential election next August, particularly if the opposition wins anything like the popular support it won in 1988.

Without the checks and balances that could be expected from genuine elections, authoritarian practices are actually being reinforced under President Salinas. One indicator is that Salinas has removed far more governors from office—in blatant violation of the constitutional provision that makes states "free and sovereign"—than any previous PRI president. Another sign is the president's repeated use of the army in domestic police matters—arresting a union leader, seizing a mine to prevent a strike, subduing protests against electoral fraud—without the constitutionally required authorization of Congress. Even ostensible reforms have further enhanced the bloated powers of the executive branch. The electoral reform added six presidential appointees to the federal electoral commission; the judicial reform transferred the power to hear confessions from judges to prosecutors; and the new National Human Rights Commission, which was given no powers of its own, was set up as a dependency of the Executive, and even then constitutionally barred from hearing any cases involving violations of political or labor rights.

The absence of effective institutional checks and balances should concern us for several reasons. First, because it means Mexico lacks any authentic legislative process. Because of its control of elections, the PRI has never held less than an absolute majority of seats in Congress; and since PRI legislative candidates are chosen by the executive branch, they are also absolutely submissive to it. One will hunt in vain for a single instance in which the Congress has turned down a presidential initiative. In effect, the president rules by decree. Apart from reinforcing authoritarian traditions, that also have the unfortunate effect of denying large segments of the population any role in the shaping of laws and policy. Since it is the poor majority that is most effectively excluded, this tends to perpetuate policies that forestall the emergence of a majoritarian middle class.

The president's complete control of Congress also gives him unquestioned control of the courts. Like Congress, the Supreme Court has never hazarded any serious check on presidential actions, even when they are in flagrant violation of the Constitution. In fact, the Constitution itself bars the Court from declaring laws and executive actions unconstitutional, except in the narrow (and ungeneralizable) case of their application to specific plaintiffs. Thus the rule of law as we know it is virtually nonexistent in Mexico.

The fact that officials are unanswerable to anyone but their superiors fosters wholesale corruption at all levels, but nowhere as much as the top, where impunity is complete. Through lower-level officials are sometimes sacrificed to satisfy foreigners, high-level officials—especially members of the cabinet—are untouchable. At most they are reassigned or retired if they become too much of a liability. Consider the case of murdered DEA agent Enrique Camarena. Though witnesses in the Los Angeles trial named Governor Enrique Alvarez de Castillo, Defense Secretary Juan Arevalo Gardoqui, and Secretary of Government Manuel Bartlett among the conspirators, their roles were never investigated. The defense secretary went into quiet retirement, and President Salinas named Bartlett secretary of education and Alvarez attorney general. Similarly, when reports surfaced linking Admiral Schlesks, Salinas' first secretary of the navy, to the smuggling of drugs into Texas by naval personnel, there was a quiet retirement, but no investigation.

Impunity also undermines any serious prospect of reforming the criminal justice system. Last year, following requests from journalists and human rights groups, the government human rights commission reopened an investigation into the 1988 murder of columnist Héctor Félix Miranda of the Tijuana newspaper *Zeta*. Though a

racetrack security guard had been arrested for the murder, no effort had been made to investigate the culpability of the racetrack owner, who had been the subject of critical commentary by the columnist. The owner—Jorge Hank Rhon—is one of Mexico's most prominent businessmen, and happens to be the son of secretary of agriculture Carlos Hank González. Under pressure from the senior Hank, the case was again abandoned.

Corruption not only undermines the criminal justice system and efforts to curtail drug trafficking, but the free market as well. Late last year, the ministry of transportation held what was supposed to be a competitive bidding process for a new air traffic control system for Mexico City. Among the contestants was IBM, represented by British businessman Kaveh Moussavi. Several officials approached Moussavi in his hotel to solicit a million dollar bribe. Moussavi refused, and the contract instead went to a joint French-Italian venture whose design had been rated unsafe by the ministry's own experts. When Moussavi then broke the unwritten rules by exposing the bribe. Secretary of Transportation Andrés Caso Lombardo was eased into retirement (though, as usual, not investigated). Yet the clearest sign that nothing has changed is that IBM is having to vigorously deny the story in order not to jeopardize its ability to continue doing business in Mexico.

Make no mistake about it: corruption is widespread in the Cabinet because it is sanctioned by the president himself. Whether through the arbitrary exercise of authority or through pecuniary solicitations, the president sets the example. In February, President Salinas hosted a \$25 million-a-plate dinner for twenty-nine of the country's leading businessmen. Given the realities of doing business in Mexico (including the absence of true competitive bidding or of an independent judicial system), the contributions were tantamount to extortion. As it turned out, the businessmen got a break because the incident was exposed in the press, and their contributions reduced to a third of a million dollars apiece. Yet the incident is disturbing for what it reveals about the extent to which the economic reforms in Mexico are being distorted by cronyism and payoffs between established political and economic elites. Here were the prime beneficiaries of privatizations, many of them rigged in their favor, repaying their debt to the political system, and in the process buying further influence in a government already predisposed to favor their interests.

Unfortunately, there is nothing in NAFTA that addresses these problems. There are no incentives to guarantee free elections and the political checks and balances that alone will begin to correct the problems of electoral fraud, graft, rigged bids, the corruption of criminal justice, and criminal justice, and complicity with drug smuggling that permeate Mexican officialdom and distort the country's economic development. NAFTA likewise offers no incentives to promote the development of free trade unions and other measures to ensure a rising standard of living for the majority of the population, a condition essential for democracy, stability, and—why not say so—to create the consumer purchasing power that will offer a substantial market for U.S. exports.

Ultimately, the argument for approving NAFTA is that it is needed to send a signal to Latin America of U.S. support for reform. Yet, as I have suggested, the reforms in Mexico have been far more superficial than is generally realized. Furthermore, contrary to the conventional wisdom, the alternative in Mexico is not one of retrenchment and abandonment of reform, but of its intensification and expansion to the political domain. No one of any importance in Mexico—whether inside or outside the ruling party—is advocating a return to the discredited economic policies of the past.

Far from seeking to curtail reform, both of Mexico's major opposition parties are calling for wider reforms. The centrist National Action Party (PAN) supports President Salinas' free market initiatives, and now seeks matching political reforms. Similarly, the center-left Party of the Democratic Revolution (PRD) has made electoral reform its overriding priority.

Though the PRD and segments of the PAN are unhappy with NAFTA in its present form, most of their objections parallel those of a majority of the U.S. public and members of Congress. They are concerned about inadequate protection for labor rights and working conditions. They also want guarantees that their environment will not become a dumping ground for toxic wastes. Mexico's democratic opposition is, therefore, a natural ally of reformers on Capitol Hill.

The beneficial effects of a more measured approach to concluding NAFTA extend to the internal politics of the PRI. The three top contenders in the succession struggle now underway are finance minister Pedro Aspe, social development minister Luis Donaldo Colosio, and Mexico City mayor Manuel Camacho. All would, in broad terms, hold to the government's present economic policies. Yet they would diverge on political reform.

Prompt approval of NAFTA in its present form would be interpreted in Mexico not only as a vote of confidence in Mexico's economic restructuring, but as an implicit endorsement of President Salinas' hard line on democracy. That would bolster prospect for Colosio and Aspe neither of whom has shown any interest in democratic reform. Should Congress choose to pursue economic integration in the context of democratic guarantees, on the other hand, it would bolster the prospects for Manuel Camacho, who has cultivated a reputation as a negotiator willing to bargain with the opposition.

Since political reform threatens the entrenched position of the PRI, Camacho is not a favorite of the party establishment. For Camacho to prevail, Mexico's leadership must first be convinced that his brand of reformism is the only alternative to loss of power to the opposition, or that it will need to rely on his negotiating skills to strike a bargain with a U.S. Congress that insists on linking North American economic integration to guarantees of free elections and respect for fundamental human rights and the rule of law. That is the message we need to be sending Mexico, and more generally Latin America, at this point, before we lose the leverage to do so.

#### THE NEED TO DEVELOP THE INTER-AMERICAN SYSTEM

In recent days, as they have been turning the heat on Congress to approve NAFTA, both President Clinton and President Salinas have been invoking the spirit of two earlier U.S. initiatives toward Latin America: the Good Neighbor Policy and the Alliance for Progress. Despite the rhetorical tributes, however, little has been said about one of the most promising legacies of the Good Neighbor Policy: the inter-American system of human rights guarantees and institutions. Born of Franklin Roosevelt's vision of a world governed by respect for the rule of law and fundamental human rights, the inter-American system consists of a treaty and supporting institutions dedicated to that end.

The American Convention on Human Rights is, I would suggest, the ideal complement to NAFTA—whether it be the present NAFTA or some modification thereof—in designing a hemispheric policy worthy of the name. It is premised on the American idea that all human beings have inalienable rights, and that it is the proper function of governments to protect those rights. Article 23 directly addresses the issue of democracy, by requiring "genuine periodic elections" that guarantee "the free expression of the will of the voters." Article 25 addresses the problem of the rule of law, by requiring a "simple and prompt recourse" to a court for protection against acts that violate fundamental rights recognized either in domestic legislation or in the American Convention itself. Should such protection not be obtainable in national courts, the Convention establishes a right of individual petition that enables any individual to file a complaint with the Inter-American Commission on Human Rights here in Washington. I can think of no more effective way of supporting the development of civil society, democracy, and the rule of law, because this approach empowers citizens everywhere to defend their own rights.

A supplement to the Convention—the Additional Protocol on Economic, Social and Cultural Rights—sets labor standards for the Americas. Central among these is the right to organize free trade unions. Significantly, the Protocol extends the right of individual petition to the right to organize. It also recognizes a right to a healthy environment, providing a legal basis for international environmental standards. As such, it is ideally suited to remedy the deficiencies of the side agreements on labor and the environment, particularly the lack of international standards and the failure to guarantee the right to organize. It can also spare us the nightmare of having to deal with some two dozen divergent sets of labor and environmental standards, which would be the outcome of the present side agreements as the other nations of the hemisphere accede to NAFTA.

Now some of you may be thinking the Mexican government would never agree to this. After all, it steadfastly refused to incorporate a guarantee of the right to organize into the side agreement on labor. The truth is, however, that Mexico has already agreed to it. It has already ratified the American Convention, making its provisions the "highest law of the union" under Article 133 of its Constitution. It has even signed the Additional Protocol.

Strange to say, it is the United States that has yet to ratify the Convention. And, from a Latin American perspective, it is difficult to understand why. It was the U.S., after all, that launched this initiative and shaped most of its contents. Now, although every Latin American country except Cuba has ratified the Convention, it is the U.S. that is holding back. What sort of signal are we thereby giving Latin Americans about our commitment to democracy and human rights in the hemisphere? What is not lost on foes of democracy in the Americas—such as those now

testing our will in Haiti—is that the Mexican government can afford to ratify the treaty yet ignore its provisions precisely because no one takes it very seriously as long as the United States is not a party to it.

To be sure, President Carter did sign the American Convention and submit it to the Senate. Yet the treaty has not been acted on in sixteen years. In June, Secretary of State Warren Christopher announced the Clinton administration's intention to re-submit the treaty. Yet there has been no action since then, despite the signal importance of the treaty to developing a hemispheric policy consonant with the administration's stated aim to make human rights the "corner stone" of our foreign policy. It would seem as though there's a fast track for trade agreements, but only a slow track for human rights treaties.

That will have to be corrected if we are to pursue a strategy of economic integration that is genuinely dedicated to promoting democracy and broad-based prosperity in the Americas, something NAFTA by itself cannot achieve, and which can only be attained—and must be attained—through a coordinated and clearly-articulated policy linking the inauguration of a pan-American market with effective guarantees of democracy and human rights for all Americans, from Alaska to Tierra del Fuego.

### STATEMENT OF ANDREW A. REDING

Mr. REDING. Mr. Chairman, Mr. Vice Chairman and Members of the Committee.

Constraints of time require me to very briefly summarize my presentation. For further detail, I invite you to have a look at my full statement and to pursue any issues that may be of interest through questions.

The essence of my argument is that NAFTA ought to be approved, but only as part of a broader package that includes U.S. ratification of the American Convention on Human Rights and agreement by Mexico to accept observation of the upcoming Presidential elections by either the United Nations or the Organization of American States.

NAFTA cannot, on its own, be a substitute for a comprehensive and coherent hemispheric policy. One of the most dangerous arguments making the rounds of Washington is that we don't need to directly concern ourselves with problems of democracy, human rights, and the rule of law in the Americas, because these ends will emerge automatically from free market reforms.

Looking around the world, one can't help but notice that the countries with well established, stable democracies are also those that have majoritarian middle classes. Significantly, those majoritarian middle classes have emerged not from market forces alone, which are politically value-neutral, but from their pairing with a series of political and social conditions. These include: Genuine elections that allow for alternation in power and accountability; authentic legislative processes that afford every sector of society its due weight in the formulation of laws and policies and ensure that no one will be excluded; effective guarantees of human rights and freedoms, backed by a truly independent judiciary; and full recognition of the right to organize free trade unions, without which, after all, the free market of course is not quite free.

None of these conditions are adequately present in Mexico today. Worse yet, the Salinas Administration, while pretending to engage in political reform, has in many ways reinforced authoritarian traditions and institutions. Where the President and his party once had only an absolute majority on the federal electoral commission, for instance, it now has a greater than two to one majority. That despite the fact that the OAS Inter-American Commission on

Human Rights advised Mexico two years ago that its stacked electoral commissions violate its obligations under the American Convention on Human Rights, to which Mexico is a party.

Such violations of international obligations, I believe, relate in some ways to Senator D'Amato's concerns about circumvention. Indeed, there are other examples of this, such as the fact that the UN Committee on Torture last November found Mexico in violation of its obligations under the UN Convention on Torture. In that case, because the ostensible reforms put into effect by the Salinas Administration to punish torture have not resulted in any prosecutions. One can hardly talk about any kind of real progress without enforcement.

Similarly, though President Salinas created a National Human Rights Commission, he made it only advisory, then amended the constitution in January 1922 to bar it from even hearing any cases involving violations of political or labor rights.

The central problem with the lack of democracy in Mexico is that there are no checks and balances on the arbitrary use of power. Since congress is a rubber stamp, the President, in effect, rules by decree. Since the courts lack independence, there is no rule of law as we know it in this country. And since officials are accountable to no one but their superiors, there is virtually complete impunity for human rights violations and for corruption.

Let me illustrate some of the consequences. In the case of drug enforcement, for instance, which I know the Vice Chairman is concerned about, think about what happened with the Camarena case. In the trial in Los Angeles, witnesses testified about the involvement of high ranking government officials in the conspiracy to murder DEA agent Enrique Camarena. Among those named were the then-Governor of Jalisco, Enrique Alvarez del Castillo, the then-Secretary of Defense, Juan Arévalo Gasdoqui, and the then-Minister of the Interior, Manuel Barlett.

Now there is no way of telling whether those accusations were correct or not. But the important point is that these men were never investigated in Mexico because there is a long standing tradition that anyone at Cabinet level or higher never gets investigated for anything. Worse yet, when President Salinas took office, he appointed Enrique Alvarez Attorney General of Mexico despite these doubts, and appointed Manuel Barlett Secretary of Education.

So I think that sent some very dangerous signals as to the willingness of the Mexican Government to deal with the problem of drug enforcement when the complicity extends to the very highest level of government itself and there are no checks and balances internal to the system to correct that.

Impunity also corrupts the criminal justice system. Consider the case of Jorge Hank. You have probably heard numerous complaints from human right groups about the murder journalists in Mexico. One of those was an editor of the Tijuana newspaper *Zeta*, and it turns out he was murdered by a security guard for a race track owned by a man named Jorge Hank. And it also turns out that the editor had been writing columns critical of Jorge Hank's business dealings. Now, despite the fact that all the indicators pointed to the culpability of Jorge Hank, the investigation was dropped.

Then last year, Jorge Carpizo, who is now the Attorney General in Mexico, but back then headed the National Human Rights Commission, reopened the investigation after prodding from Mexican journalists and human rights groups. Before you know it, the investigation was again blocked. The reason, it turned out, is that Jorge Hank is the son of Carlos Hank, who is Secretary of Agriculture in Mexico, one of the most powerful figures in the PRI, and very close to President Salinas personally. So that's the kind of problem you get into in the absence of effective checks and balances.

Lack of accountability also distorts efforts at economic reform. Consider privatizations—look at the list of contributors to the Salinas campaign in 1988 and you will find the top contributor was Carlos Slim, who was also one of Salinas' best friends and also chairman of his campaign finance committee. Well, I don't think it is a coincidence that Carlos Slim ends up with control of TELMEX, the biggest privatization of them all. And that TELMEX—let's not forget this—is still a private monopoly with government protection. Now, you know that because whenever you call Mexico, you know that the telephone rates are unreal. A dollar seventy cents a minute to Mexico, and that is not coming from the AT&T, SPRINT, or MCI portion. Analyze the bill and you'll find almost all of that is going to TELMEX, precisely because they have monopoly control. That makes TELMEX a great bargain on the stock market, because it can dictate prices without fear of competition. So obviously TELMEX shares are very popular at this point in the United States.

But you should be worried, I think, that something like  $\frac{2}{3}$  of the valuation of the Mexican stock exchange is in effect TELMEX stock. And part of the reason for why it is so highly valued at this point is precisely the close connections between government and the private sector that give the latter a privilege that it really shouldn't have—a privilege, incidentally, that is hurting Mexico because those high rates are making it very difficult for businessmen to engage to have the kind of communication they need between Mexico and the United States.

To correct these problems of political accountability, I would suggest tying two initiatives to NAFTA while we still have the leverage to do so. The first is to ask Mexico to accept either UN or OAS observation of the 1994 Presidential election, to give Mexican citizens confidence in the ballot box and ensure a credible outcome that will avoid polarizing the country, as recent statewide elections have done following well substantiated charges of fraud.

The other—even more important initiative—would be to ratify the American Convention on Human Rights. The Convention, which includes rights to general elections, to organize free labor unions, and to due process, provides precisely the normative framework essential to achieving broad based prosperity and democracy in the hemisphere. It also strengthens civil society by empowering citizens to defend their own rights through recourse, where necessary, to the Inter American Commission on Human Rights right here in Washington.

Significantly, the convention has been ratified by every Latin American country except Cuba. Since it has already been ratified

by Mexico, the Mexican government cannot reasonably object to its enforcement. The problem is that it has yet to be ratified by the United States. Though it was signed by President Carter sixteen years ago, the Senate has yet to give its advice and consent to ratification, all of which gives the impression that there is a fast track for trade but only a slow track for human rights. It is important to view this from a Latin American perspective. As you ponder what message a yes or no vote on NAFTA gives to Latin America, I believe you should also ask yourselves what message we are sending Latin Americans, both the friends and foes of democracy, by not simultaneously acting on the American Convention. Only a hemispheric policy that explicitly links supports for economic and political freedoms will be worthy of our national values and adequate to the challenges that will confront us as we pursue a future of broad based prosperity and democracy for the Americas.

Thank you

Chairman DECONCINI. Thank you, Mr. Reding.

Mr. Rhodes.

By the way, your full statements will appear in the record. We thank you for summarizing them for us.

[The statement of Mr. Rhodes follows:]

#### STATEMENT BY WILLIAM R. RHODES

Mr. Chairman, Members of the Committee, my name is William R. Rhodes, and I serve as Vice Chairman of Citibank and as the bank's Senior International Officer. I've been with the bank for 37 years. For most of my career, I've been deeply involved with the countries of Latin America: for twenty years in a variety of senior positions within the region, and from 1982 onward, I headed the advisory committees of international banks that negotiated debt restructuring agreements with Mexico, Argentina, Brazil, Peru and Uruguay.

Before getting into the specific issue I was asked to address in my testimony, let me highlight the fact that Citibank strongly supports the North American Free Trade Agreement, and we urge members of the Senate Intelligence Committee to support the enabling legislation which will bring this historic agreement into force as of January 1994.

Mr. Chairman, you have asked me to testify on the consequences for US relations with Latin America if NAFTA is rejected. I'm sure that you and members of the committee, know that the economic, financial and political situation in Latin America is far better than any of us would have expected only two or three years ago. In country after country, we are seeing fundamental structural economic changes. The continent is eager to trade and regards the US as a natural economic partner.

Mexico has been in the forefront of this economic modernization beginning already in 1985, when the government of Miguel de la Madrid applied for membership in GATT, began to push privatizations and closed many money-losing state-run industries. Reforms accelerated under Carlos Salinas de Gortari, who opened the country to foreign investment, lowered tariffs, reduced inflation to single digits, encouraged competition and put Mexico on solid ground, positioning it to become an essential trading partner of the US. Chile, Argentina, Colombia, Bolivia, Venezuela, Uruguay and, most recently, Peru, among others, have also instituted significant free market reform programs.

From the experience of these countries, I've distilled some reasons why, I believe, Latin America, after the lost decade of the 1980s, is today considered an attractive region in terms of both trade and investment.

First, and most important, the implementation in most Latin American countries of structural economic reforms such as privatizations, trade liberalization, deregulation and tax reform.

Second. Strong political will and courageous leadership demonstrated by a number of heads of state and governments in pressing for economic reform and open markets—to mention two, Presidents Salinas and Menem.

Third. The phase-out of the external debt crisis, which allowed most countries to return to credit-worthiness.

Fourth. The growth of local capital markets and the repatriation of flight capital.

Fifth. A return to the international capital markets, which gave many countries access to new voluntary capital flows.

Sixth. The move away from military governments toward democracy.

And, finally, the growth and expansion of regional and international trade as evidenced in many new, regional and bi-lateral trade agreements—including The Enterprise for the Americas Initiative, calling for hemispheric free trade, and most importantly, its first step, NAFTA.

Mr. Chairman, a US rejection of NAFTA would be a shattering blow to those new liberal policies in many Latin American countries, that I have just described. The United States has been instrumental in encouraging this free market trend, and expectations have been built up throughout this hemisphere. Major Latin American countries are moving rapidly to embrace just those free market values that the US has championed for years. If we suddenly, and inconsistently, reject a trade agreement based on those values, the consequences could be serious. Latin Americans know that their countries' future political stability, economic outlook, and standard of living, are closely tied to what the US will do.

Last week, I spoke at a two-day conference sponsored by the Wall Street Journal, and attended by US and Latin American business and political leaders. President Clinton made a special stop to assure us of his efforts to pass NAFTA. Many of the Latin American leaders, from both the public and private sectors, later, told me the failure of NAFTA could endanger liberal reforms within their own countries, and possibly prejudice future US economic and political relationships with Latin America as a whole. In my recent trips to Latin America, I've heard the same story. Rejection of NAFTA would send a message to all of Latin America that we are turning our backs on free trade—and signal to the world that the US is embarking upon an inward-looking, protectionist course. This would seriously affect our credibility in other important trade negotiations such as the GATT Uruguay Round—and also create a risk that the Latin American countries would look to Europe and Japan as more dependable trading partners. It would also damage the world image of the President. Viewed in this broad perspective, passage of NAFTA is essential to the US national interest.

When we think more specifically of the immediate effects of NAFTA's rejection, clearly there is cause for concern. Investment flowing into Mexico in anticipation of NAFTA, could suddenly be reversed. It's hard to predict what direction the economic and political situation might take then. Mexicans worry about the effect of reverberations on interest rates, exchange rates, inflation and flight capital. Anticipation of NAFTA has been an important element of their modernization policy, and a rejection could reverse some of the positive economic policy trends and play into the hands of the more nationalistic groups.

Mexico and many other Latin American countries could also see setbacks in hard-won standard of living gains. In the past four years, conditions have improved for even the poorest Mexicans: since 1989, according to a UN study, extreme poverty has declined there by some 8.7 percent.

Failure to pass NAFTA means that Mexican workers could lose NAFTA-generated higher wages and improved working conditions, as well as the purchasing power to buy US imports. If Mexican workers lose their chance for fuller employment and a better life at home, our border will continue to be a one-way door for streams of immigrants seeking US jobs.

If NAFTA is rejected, we could also lose much of the increased cooperation between the US and Mexico in such areas as law enforcement, drug trafficking restraints, and border controls.

Environmental priorities in Mexico also could be adversely affected if NAFTA fails. As we all know, NAFTA is the first trade agreement to embody international environmental standards.

Finally, Mr. Chairman, I should mention that the recent economic policy trends in Latin America, which I have described, have been occurring in an environment of increasing democracy in the hemisphere. In fact, there are more democracies in Latin America today, than ever before in its history. The trends are going our way in Latin America, not only economically, but politically as well. The US has played an important role in encouraging these trends and should steadfastly continue its support.

#### STATEMENT OF WILLIAM R. RHODES

Mr. RHODES. Mr. Chairman, Mr. Vice Chairman, Members of the Committee, my name is William R. Rhodes, and I serve as Vice

Chairman of Citibank and as the bank's Senior International Officer. I've been with the bank for 37 years. Through most of my career, I've been deeply involved with the countries of Latin America: for twenty years I held a variety of senior positions within that region, and from 1982 onward, I headed the advisory committees of international banks that negotiated the various debt restructuring agreements with Mexico, Argentina, Brazil, Peru and Uruguay.

Before getting into the specific issue that I was asked to address in this testimony, let me highlight the fact that Citibank strongly supports NAFTA, the North American Free Trade Agreement, and we urge members of the Senate Intelligence Committee to support the enabling legislation which will bring this historic agreement into force as of January 1994.

Mr. Chairman, you have asked me to testify on the consequences for US relations with Latin America if NAFTA is rejected. I'm sure that you, and Members of the Committee, know that the economic, financial and political situation in Latin America is far better than any of us would have expected only two or three years ago. In country after country, we are seeing fundamental structural economic changes. The continent is eager to trade and regards the US as a natural economic partner.

Mexico has been in the forefront of this economic modernization beginning in 1985, when the government of Miguel de la Madrid applied for membership in GATT, began to push actively privatizations and closed many money-losing state-run industries. Reforms accelerated under Carlos Salinas de Gortari opened the country to foreign investment, actively lowered tariffs, reduced inflation to single digits, encouraged competition and put Mexico on solid ground, positioning it to become an essential trading partner of the US. Chile, Argentina, Columbia, Bolivia, Venezuela, Uruguay, and many others have recently instituted significant free market economic reform programs in Latin America.

From the experience of these countries, I've distilled some reasons why I believe Latin America today, after the lost decade of the 1980's, is considered an attractive region in terms of both trade and investment.

First of all and most important, the implementation in most Latin America countries of structural economic reforms such as privatizations, trade liberalization, deregulation and tax reform.

Second. Strong political will and courageous leadership demonstrated by a number of heads of state and governments in pressing for economic reform and open markets. And to mention a few of those leaders and governments that they head, I mention President Salinas and President Carlos Menem in Argentina.

Third. The phase-out of the external debt crisis, which allowed most countries to return to credit-worthiness.

Fourth. The growth of local capital markets and the repatriation of flight capital.

Fifth. A return to the international capital markets, which gave many countries new access to voluntary capital flows.

Sixth. And very, very, important, the move away from military governments to democracy.

And, finally, and very important also, the growth and expansion of regional and international trade as evidenced in many new re-

gional and bilateral trade agreements, including The Enterprise for the Americas Initiative, which calls for hemispheric free-trade. And here most importantly, as the initiative's first step, the approval of NAFTA.

Mr. Chairman, a rejection of NAFTA, I believe, would be a shattering blow to those new liberal policies in many Latin American countries that I have just described. The United States has been instrumental in encouraging this free market trend, and expectations have been built up throughout this hemisphere. Major Latin American countries are moving rapidly to embrace just those free market values that the US has championed for years. If we suddenly, and inconsistently, reject a trade agreement based on those values, the consequences could be very serious. Latin Americans know that their countries' future political stability, economic outlook, and standard of living, are closely tied to what the US will do.

Last week, I spoke at a two-day conference sponsored by the Wall Street Journal and attended by many US and Latin American business and political leaders. And I will ask Mr. Chairman if my remarks at that meeting could be included in the record.

Vice Chairman WARNER. Will there be a record of that provided to the public? That sounds like an interesting forum.

Mr. RHODES. A number of the speeches were recorded and handed out; mine was one of them. And I will see if I can get you as many as possible, Senator.

[The presentation referred to by Mr. Rhodes follows:]

PANEL REMARKS BY WILLIAM R. RHODES, WALL STREET JOURNAL CONFERENCE ON THE AMERICAS -

It's a great pleasure to participate in this second annual Wall Street Journal Conference at a time when we are seeing greater agreement in the Americas on democratic values and free market economics than ever before.

Those of us who worked in Latin America during the 1960s and 70s, fully realize what an historic and promising time this is. My first job as a young banker was in Venezuela during the early 1960s. Much of Latin America, then, was marked by political unrest, military governments, and an economic model that favored closed markets and heavy public sector involvement.

Venezuela, as a Latin American democracy in the early 1960s, was the site John F. Kennedy chose to initiate his Alliance for Progress. I remember that event well, because I was among the group invited to greet JFK at the airport. It was a hot, tense occasion. Castro-backed guerrillas had broadcast threats against Kennedy's life. Huge crowds, hoping for a glimpse of that brave American President, lined the roads, and the sun reflected off the bayonets of nervous soldiers cordoning the airfield. When Air Force One landed, and Kennedy announced to the waiting crowd that he had arrived in the footsteps of Franklin Delano Roosevelt, who had dedicated the U.S. "to the policy of the good neighbor," I felt a real surge of pride. And later, when he vowed, through the Alliance, "to make all our hemisphere a bright and shining light over all the world," everyone's hopes were incredibly high.

We all know, unfortunately, that this dream was never realized. We also know what did happen, and why. The economic model that most Latin American countries had chosen to follow, proved faulty. What appeared to be promising economic growth in the late 1960s and early 70s, gave way to bloated and inefficient public sectors, highly protected industries, a dearth of private enterprise, and huge debts, incurred principally by public sector entities. As a result, when faced with high interest rates and a global recession at the end of the decade, many countries were unable to repay their international obligations—which produced the debilitating debt crisis of the 1980s.

Many of us here today, worked throughout that period to help resolve the debt crisis. But in the end, it was the people of Latin America, and their governments, who finally recognized the need for basic structural economic reforms. Dedicated leaders in many Latin American countries have been working over the last few

years to restructure their debt, privatize industries and open their markets to the free movement of money and goods.

The two countries that began the reform process were Mexico and Chile. In the case of Chile, the process started with the military government of Augusto Pinochet, and continued under the democratically-elected government of Patricio Aylwin. Mexico crossed its economic Rubicon in 1985, when the government of Miguel de la Madrid joined GATT, closed many money-losing public industries and increased privatization programs. Reform continued, and accelerated rapidly, under Carlos Salinas de Gortari, who has put the country on solid ground, and positioned it to be a prosperous, stable neighbor of North America, as well as an essential trading partner. Argentina, Colombia, Venezuela and, most recently, Peru, among others, have also instituted significant free market reform programs.

From the success of these countries, I've distilled some reasons why, I believe, Latin America, a pariah in the international markets in the 1980s, is today, considered an attractive region in terms of both trade and investment.

First, and most important, the implementation in most Latin American countries of structural economic reforms such as privatizations, trade liberalization, deregulation and tax reform.

Second. Strong political will and courageous leadership, demonstrated by a number of heads of state and governments in pressing for economic reform and open markets—to mention two, Presidents Salinas and Menem.

Third. The phase-out of the external debt crisis, which allowed most countries to return to credit-worthiness.

Fourth. The growth of local capital markets and the repatriation of flight capital.

Fifth. A return to the international capital markets, which gave many countries access to new voluntary capital flows.

Sixth. The move away from military governments toward democracy.

And, finally, the growth and expansion of regional trade as evidenced in many new, regional and bi-lateral trade agreements—most importantly NAFTA.

The Enterprise for the Americas Initiative, launched by President Bush, with its first step, NAFTA, was designed to create an eventual hemispheric free trade zone. These two initiatives come at a point when democracy and free enterprise are beginning to co-exist in Latin America—and because they come in the aftermath of the cold war, they can concentrate on economic considerations, rather than political ones. This is something that previous U.S. efforts in Latin America—namely the Alliance for Progress and the Good Neighbor policy—were unable to do.

Those earlier programs were largely aid-oriented and politically motivated. Also, I must note, too much of that aid got funneled into the public sector. NAFTA is strictly trade oriented—designed to stimulate economic expansion, create jobs and produce mutual benefits for the US, Mexico and Canada. Passage of NAFTA not only represents an important step toward a Western hemisphere commitment to free trade and economic integration—but also the validation of new democracies and free market systems throughout the Americas.

The current arguments being hurled against NAFTA are both short-sighted and ill-informed. The bill has become a conduit for many other US frustrations. Many labor unions and some environmental groups are lobbying against it. But what these special interests fail to recognize is that NAFTA would actually allay their problems. NAFTA is the first trade agreement to embody international environmental standards. Passage would insure that such standards are observed, and also set a precedent for other countries to emulate. Furthermore, by strengthening Mexico's economy, NAFTA would decrease unemployment in Mexico, which is the leading cause of legal and illegal immigration to the north—a current pressure on the jobs of lower-skilled US workers.

NAFTA is in the mutual interests of the U.S., Canada and Mexico. In the industry I know best, financial services, new jobs clearly will be created on both sides of the border. Mexico once was one of the most protected financial markets in the hemisphere. Non-Mexican financial service firms were prohibited from establishing branches—with the exception of my own bank, Citibank, which has been there since 1929, but was highly restricted in its activities. NAFTA would open Mexico to U.S. and Canadian financial service firms, and give them, with a reasonable phase-in period, full national treatment under the same rules as domestic firms. It would also permit the formation of financial service holding companies, able to separately operate banks, securities firms, insurance and finance companies. Financial service jobs in Mexico would be new jobs—not jobs shifted across the border. At the same time, jobs would be created in the United States and Canada to support the expanded financial business in Mexico. For example, credit cards issued to Mexicans by U.S. and Canadian banks, would be serviced from consolidated worldwide processing cen-

ters in North America. The financial services component of NAFTA, the most comprehensive yet negotiated, and should establish many useful precedents for the future.

Today, we all work in a global marketplace, where nations must compete, like it or not. Other countries are busy strengthening their positions in this new global arena—and are looking with interest at Latin America. Many Latin American countries, today, are poised at roughly the same stage of free markets that, earlier, triggered such dynamic growth in Asia. The US is already benefiting from Mexico's new strength. Between 1986 and 1992, US exports to Mexico almost tripled, transforming a deficit into a substantial surplus. NAFTA would insure that such gains aren't transitory on either side of the border. Latin America represents a large and growing market, not only for the US and Canada, but for the rest of the world. It is a market right on our doorstep—it would be foolish to close that door.

Those of us who tracked the dramatic transformation of Latin America over the last few years, have high hopes for what NAFTA can accomplish for all of the Americas. It will send a message to Latin America and other countries that we recognize the need for global trade and strong open markets. And it will also validate US credibility in negotiating a successful conclusion of the even broader Uruguay Round.

The US has a commitment to free trade—if we want to send a message that we are turning our backs on free trade and GATT, then the U.S. Congress should vote against NAFTA.

The U.S. also has a commitment to our workers to foster profitable markets for the products of their labor—if we want to send a message that we are turning our backs on our own workers, then Congress should vote against NAFTA.

And finally, the U.S. has a dedication to encourage democratic principles throughout the globe—if we want to send a message that we are turning our backs on democracy, then the Congress should vote against NAFTA.

I do not believe that any one in the United States wants to send those messages—not labor, not business, not Democrats, not Republicans, not environmentalists, and certainly not the U.S. Congress.

When I look back and see just how far Latin America has progressed since 1963, I'm convinced that had John F. Kennedy lived, he would have, with his characteristic "vigor," endorsed NAFTA—along with the five other former U.S. presidents, who have joined President Clinton in supporting the agreement. Today, for the first time, we really do have the opportunity "to make our hemisphere a bright a shining light over all the world." It would be a terrible mistake to reject that chance.

Mr. RHODES. President Clinton made a special stop to talk with us to assure us of his efforts to pass NAFTA. Many of the Latin American leaders present, from both the public and private sectors, later told me the failure of NAFTA could endanger liberal reforms within their own countries, and possibly prejudice future US economic and political relationships with Latin America as a whole. In my own recent trips to Latin America, I've heard the same story almost everywhere. Rejection of NAFTA would send a message to all of Latin America that we are turning our backs on free trade and signal to the world that the US is embarking upon an inward-looking, protectionist course. This would seriously affect our credibility, I think, in other important trade negotiations such as the GATT Uruguay Round and also create a risk that Latin American countries would look to Europe and Japan as more dependable trading partners. It would also, I think, damage the world image of our President. Viewed in this broad perspective, passage of NAFTA is essential to the US national interest.

When we think more specifically of the immediate effects of NAFTA's rejection, clearly there is cause for concern. Investment flowing into Mexico in anticipation of NAFTA, could suddenly be reversed. It's hard to predict what direction the economic and political situation might then take. Mexicans worry about the effect or the reverberations on interest rates, exchange rates, inflation and flight capital. Anticipation of NAFTA has been an important ele-

ment of their modernization policy, and a rejection could reverse some of the positive economic policy trends and play into the hands of the more nationalistic groups. President Salinas often talks about NAFTA cementing in the economic reforms that have happened under both he and President De la Madrid.

Mexico and many other Latin American countries could also see setbacks in hard-won standard of living gains. In the past four years, conditions have improved for even the poorest Mexicans: Since 1989, according to a recent UN study, extreme poverty has declined there by some 8.7 percent.

Failure to pass NAFTA means that Mexican workers could also lose NAFTA-generated higher wages and improved working conditions, as well as the purchasing power to buy US imports. If Mexican workers lose their chance for fuller employment and for a better life at home, our border will continue to be a one-way door for streams of immigrants seeking US jobs.

If NAFTA is rejected, we could also lose much of the increased cooperation between the US and Mexico in such areas as law enforcement, drug trafficking and border controls.

Environmental priorities in Mexico could also be adversely affected if NAFTA fails. As we all know, NAFTA is the first trade agreement to embody international environmental standards.

Finally, Mr. Chairman, I should mention that the recent economic policy trends in Latin America, which I have described, have been occurring in an environment of increasing democracy in the hemisphere. And I think this is a very important point. There are more democracies in Latin America today than ever in their history. One only needs to go back and look at the history of Latin America since the wars of liberation to understand the importance of the present democratic trends in Latin America. The trends are going our way in Latin America, not only economically, but politically as well. And I think the demonstration of the number of democracies there is an example of that. The US has played an important role in encouraging these trends and should steadfastly continue its support.

Thank you, Mr. Chairman.

Chairman DECONCINI. Thank you, Mr. Rhodes.

Gentlemen, could you each comment on whether or not you think NAFTA will bring about more political corrective measures and more democratic institutions, and on the other side, if NAFTA is not approved, will the country revert to even more single party domination and less change, even those that appear to be going on within the PRI. Mr. Moss?

Mr. MOSS. Mr. Chairman, I think the fact is that the PRI is losing its inexorable grip on Mexican politics to the extent that it once had. It is obviously still in charge, but I think it is being contested today by other political forces in a way which we haven't seen before.

Chairman DECONCINI. Is that good?

Mr. MOSS. I think that is good. We believe in participatory democracy.

Chairman DECONCINI. And will NAFTA affect that? Bring about more change?

Mr. MOSS. After all, we are not effecting a merger with Mexico, only a free trade agreement with it. So our ability to influence their internal politics is somewhat limited. But I would say with the rise of the middle class, the rise of people participating in the economic system, the great participatory effect simply by being in a free trade area with us, I would expect the net effect of that to increase. I wouldn't predict any sudden success over a time.

Chairman DECONCINI. Thank you.

I am going to ask the Clerk to keep 10 minute times for questions.

Mr. Reding, would you respond to that?

Mr. REDING. That it is going to depend on other factors. As I said in my testimony, I don't think free trade by itself guarantees any kind of political outcome. I can go either way. Certainly there were free market institutions for quite a while under General Pinochet in Chile along with authoritarian institutions. These things are not automatic.

Chairman DECONCINI. Well, let me ask you this. If the economy gets better in Mexico, is that more apt to bring more democracy and greater recognition of human rights?

Mr. REDING. It all depends on how that economic improvement is distribute through the population. That's why the lesson of the 1940's, 50's and 60's in Mexico is so important. Those were three decades in which Mexico had a per annum growth rate of about 6% per year. That's a stunning growth rate that was greater than Japan's during that period. And yet the benefits of growth were not distributed in such a way as to create what I was talking about earlier—that all important majority middle class.

And one of the trends that is so worrisome about the present economic reforms, as in the case of the 40's, 50's and 60's, is that so far all the benefits have been channeled to the top one to five percent of the population. As you must be hearing from a lot of the security analysts, the CIA analysts, the benefits are not percolating down to the majority of the population.

Chairman DECONCINI. Well, hasn't there been an increase in job availability for lower income people with the economic growth Mexico is experiencing now?

Mr. REDING. The real question there is what's been happening with real wages. And there has been—you know, first there was, of course, that catastrophic decline in real wages early on during the reform period.

Chairman DECONCINI. And the devaluation?

Mr. REDING. Exactly. And then that was followed by some stabilization. But the real wage has not—you know, usually when you go through this kind of crisis, as happened in Costa Rica earlier, you get a rebound. Once the economic picture improves, wages come up quite rapidly, faster than the economy improves in response to the economic gains. That only happens where you have an independent labor force, with free labor unions, collective bargaining, and an effective right to strike. That is why it has happened to a greater extent in Costa Rica, a country with true civil liberties, than it has in Mexico where there has been an active policy by the Salinas administration to repress labor and keep wages low. This has been in part to compensate—let's the honest about

it—for deficiencies in infrastructure in Mexico that otherwise put it at a considerable disadvantage to industries in the United States.

Chairman DECONCINI. Mr. Rhodes, can you comment on whether or not this economic benefit to Mexico will bring about more democratization?

Mr. RHODES. I think already that NAFTA in itself has acted as an incentive to open up the country politically. I think, as we are all aware, the Mexican congress several months ago passed a new electoral law, and it is interesting that it wasn't just supported by the PRI; the PAN, the largest opposition party also supported it. And I think this was a major piece of legislation, a major change. I think we have been seeing more opening up politically in Mexico over the last couple of years since NAFTA has started to be discussed than we have seen probably since the revolution. So I think it is a major incentive to continue to open the country up politically.

Chairman DECONCINI. Mr. Reding, the present Attorney General, through he's the third one under this regime of De la Madrid, Mr. Carpizo, was the head of Mexico's human rights organization, and he got high marks from other human rights organizations that I am familiar with, having headed the Helsinki Commission for some time. And there is some evidence—not evidence; some fact, that he has brought about a number of indictments of high level people, including one former Supreme Court Justice and two commandantes of the federal police. Is that a significant change in the direction of at least doing something about corruption within Mexico, or is that only window dressing?

Mr. REDING. Well, must remind you there has been this little dog and pony show going on for a long time in Mexico. Whenever there is a concern in the United States about corruption in Mexico, incoming administrations always make a big show of prosecuting somebody from the prior administration. You remember when former President Miguel De la Madrid imprisoned the Mayor of Mexico City and the head of PEMEX, the Mexican oil company.

Chairman DECONCINI. But the fact is that it is the past regime, the same PRI party, so it's the same family so to speak. Is it not significant that Carpizo has brought some indictments of high level people, yes or no? If it isn't, I appreciate your—

Mr. REDING. Well, I applaud any indictments. Of course, it will mean more to me once they turn into convictions and the people actually serve jail time, because that's what really counts in Mexico, in terms of the demonstration effect. But beyond that I'm very concerned about the fact that just a month ago the Deputy Attorney General for Human Rights resigned, Andrea Barcenon. She said she finally had to resign in desperation because the human rights division of the Attorney General's office was basically being treated as a public relations effort.

Chairman DECONCINI. What about the change of all the customs officials along the border about a year an half ago, where the Mexican government, the Salinas regime absolutely retrained—as a matter of fact, the United States participated in training those people, and put in all new people because of the high amount of corruption there. That may not quite be a human rights issue, but

that was interpreted by me, and others, as being a significant effort by the government to clean up their own act. What do you think?

Mr. REDING. Well, it certainly was, no doubt about it. On the other hand, there are very disturbing signs, as for instance the one I mentioned of why it is that Jorge Hank is completely untouchable for the murder of a journalist who happened to criticize him in the press.

Chairman DECONCINI. What is the status of Mexico in compliance with the human rights court of the United Nations? Have they been found to be in violation of that?

Mr. REDING. They have indeed. The striking thing about this, Mr. Chairman, is that this decision by the Committee was unanimous. This was particularly embarrassing for Mexico because there are other members from Latin America on that commission. One was from Uruguay, one was from Argentina, and these were people with memory of the dirty wars in their countries and the practices of torture that occurred there during the 1970s. So they were particularly impatient with the Mexican excuses for why torture continues with complete impunity for the torturers, particularly where high level government officials are responsible.

Chairman DECONCINI. I think you make a very good point about human rights. I'm impressed with the changes in the attitude Mexico has demonstrated towards cooperation with United States in the area of drugs, which also deals with corruption. But I've never seen that kind of response before, where our people are operating within that country. We have the right to overfly Mexico with Mexican officials on board, which we haven't had since the late 70's, and to me I'm impressed with that.

Do you think that is a temporary effort on Mexico's part because of NAFTA?

Mr. REDING. In part. But what worries me even more is that there is always that line that can't be crossed. That line is drawn at the cabinet and often at high members of the armed forces. To give you another example—Salinas's first appointment as Secretary of the navy was Admiral Maurico Schleske. Now it came to public light about a year or two later that this sailors at the Matamoros naval base, were shipping drugs into the United States. In other words, Mexican naval officials were taking advantage of a naval base near the Texas border to ferry drugs into the United States.

When this was exposed in the press, it led to the quiet retirement of the Admiral, but not to any investigation. He was simply too high level. He was a cabinet member.

Chairman DECONCINI. Your point is well taken.

Mr. REDING. Without the kind of checks and balances that could only happen in a multi-party system with an independent judiciary, and truly free elections, all the elements of a normal Western democracy, it won't be possible to get at the roots of corruption at the highest levels of the Mexican government.

Chairman DECONCINI. My time is up, but yes or no, would you recommend that this Congress approve NAFTA?

Mr. REDING. Again, I would recommend approval in connection with the other two elements I mentioned. One being the ratification of the American Convention that's before the Senate, incidentally.

Chairman DECONCINI. Yes, I understand.

Mr. REDING. And the Clinton Administration has said it wants to see ratified. And with the request to Mexico—I think it is a very reasonable request—for them to accept a UN or OAS observation of their next election.

Chairman DECONCINI. Senator Warner.

Vice Chairman WARNER. Thank you, Mr. Chairman.

I would say to our witnesses and others in attendance today that Chairman DeConcini has a record of defending human rights around the world in this body since first day he crossed the threshold. And there are few of us who possess the knowledge that he has and the record of achievement. So I know how important it is to our Chairman.

I like to ask each of you several questions so each can participate, and we will just start with you, Mr. Ambassador. The illegal immigration is a matter that concerns me greatly. Quickly, what impact will that have on NAFTA if it is passed?

Mr. MOSS. I believe if it is passed, Mr. Vice Chairman, the illegal immigration will not discontinue all together, will not go away, but if employment opportunities for Mexicans can be found in Mexico, it should diminish it. Economic development is, I believe, an offset to illegal immigration and may be the only real one.

Vice Chairman WARNER. All right.

Mr. Reding?

Mr. REDING. The key to providing a disincentive to illegal immigration will be to provide jobs in Mexico that are comparable in terms of what they pay for the level of productivity. I'm not talking about the superficial difference between minimum wages, because you have to factor productivity into the equation. I'm talking about for someone with a given set of skills, what can that person with those skills earn with the same job on either side of the border. Until that get into a closer proximity to parity, obviously there is going to be a very strong draw to go across the border. Ultimately the only way to correct the problem is to allow free labor organizing in Mexico.

Mr. RHODES. Mr. Vice Chairman, I think that NAFTA will help with job creation in Mexico. Already we've seen an increase in the basic wages as a result of NAFTA. And so I think it will help definitely in the immigration situation.

My concern is the other side, that if NAFTA is not approved, the negative impact it could have on the immigration flows to the United States.

Vice Chairman WARNER. Well, we'll start on the reverse on this next question. It is this increase in jobs, and that is repeatedly said, the increase in jobs. What is the disparity in wealth today? I've heard figures at high as 6% of the people have 90% of the money. Have you heard those figures? And what is your understanding of those figures?

Mr. RHODES. You hear and see all sorts of figures, Mr. Vice Chairman.

Vice Chairman WARNER. You're in the banking business and we kind of rely on your figures.

Mr. RHODES. Well, I would just say this. What I have seen over the last few years in the distribution of wealth has been positive.

I think we have seen a greater distribution over the last couple of years. You have examples of favoritism, as mentioned by my colleague here in privatizations, etc. But I think in general we are seeing a strengthening over a last few years of the middle class.

Vice Chairman WARNER. I want to come back to the precise question. Can you—if you don't know, you don't know.

Mr. RHODES. I don't have any specific figure to give you.

Vice Chairman WARNER. Do you, Ambassador?

Mr. MOSS. I don't either. I don't have that exact figure, sir.

Vice Chairman WARNER. Do you, Mr. Reding?

Mr. REDING. I don't have the precise figures, but I can tell you this. The World Bank just came out with a report on that and it will be worth your while to get a hold of it, particularly since the World Bank did point out that the inequality in income and wealth in Mexico is the highest—

Vice Chairman WARNER. We will get that.

Back to jobs if more jobs are created in Mexico, then the argument is that they will be lost here in the United States? Because there are only so many hats, so many shoes, so many consumer products, so many of this, that both economy can absorb.

Mr. RHODES. I think you will have additional job creation in both countries, as a matter of fact, because I think it will lead to increased trade with countries. I think that NAFTA will improve the economic situation in Mexico among the working class. I think it would bring more power to buy.

Vice Chairman WARNER. I don't doubt that. But how does it improve it here in the United States?

Mr. RHODES. I think on the export side.

Vice Chairman WARNER. On the export. Through increased exports to Mexico?

Mr. RHODES. Exactly.

Vice Chairman WARNER. And then where do they get the money with which to buy those exports?

Mr. RHODES. I think, Senator, one of the things is that you will be seeing more opportunity for US exports, because with NAFTA the tariff rates will be going down in Mexico, which will give us an addition opportunity and clout. And you asked where they will get the money. Just from what I said, because I think the wages will tend to go up in Mexico and you will have some job creation which will give additional purchasing power in Mexico. So that's where I think I come out vis a vis job creation and opportunity on both side of the border.

Vice Chairman WARNER. Your bank obviously does a lot of business with Mexico, correct? A number of loans?

Mr. RHODES. Well, we have an operation—a small operation within Mexico where we deal in local currency, and we also have operations and things like trade finance where we deal outside of Mexico.

Vice Chairman WARNER. But you hear repeatedly in the years past the American banks have loaned a considerable amount of money to Mexico and other Central and South American countries.

Mr. RHODES. That's correct, sir.

Vice Chairman WARNER. And a great number of those loans have been in default for some time, isn't that correct?

Mr. RHODES. Well, as a matter of fact, since I chaired the committee, we negotiated a debt agreement with Mexico in the summer of 1989, which became effective in 1990 and Mexico had been fully servicing all its debt since that date. So they are not, in effect, in default, and have not been since that date. As a matter of fact during the whole period when we were doing various restructurings of Mexican debt from August 1982 and onward, Mexico never stop paying its interest. It was forced to restructure the principle because of the serious economic situation. But it never defaulted on its interest during the whole period.

Vice Chairman WARNER. So therefore, in your judgment there are no facts to base an allegation that NAFTA is going to help to bail out the defaulted loans to American lending institutions?

Mr. RHODES. No, sir. As I stated, they have been fully servicing their debt since 1982 and since their restructuring in 1989, they have been fully servicing all principle without a problem.

Vice Chairman WARNER. That's key principal because I did some banking work myself. So it's not only interest but it is now curtailment of the principal?

Mr. RHODES. Now, exactly—the principal is being fully serviced also, and has been since we reached that debt agreement.

Vice Chairman WARNER. Now, Ambassador Moss, what's your view on this reciprocal, because I copied down here—this is interesting. "You said if we don't pass NAFTA it is going to worsen the drug situation, it could worsen the environment, it could sour our relationships with not only Mexico but other Central America countries. It will worsen poverty in Mexico." So failure to do it will cause all of these problems; passage will correct them. What is the reciprocal benefit to the United States?

Mr. MOSS. I think the reciprocal benefit, sir, is the fact that we already achieved with Mexico in anticipation of NAFTA, an environmental understanding such as we never had before in which Mexico has quadrupled its efforts towards cleaning up the border in terms of money, in terms of environmental resources. It has also passed a model intellectual property law, one that now our USTR hands out as something to be emulated, even better than the position papers they used to carry up and down the hemisphere. Mexico has opened up more to trade and services, which is one of the things that we've always been interested in. So I think in all these new areas of cooperation, in addition to drugs, are things that which were done in anticipation of NAFTA and a cementing and a nailing down of the new relationship.

I worry about the environmental provisions, where some environmental groups will tell you that they are not perfect and continue to oppose NAFTA on those grounds. But I think the majority of the environmental community now realizes that they have a good bargain, they have got leverage to work with that they never had before. If there is any hope of Mexico really doing a good job, which many of their leaders want to do in cleaning up the environment, they are better off with NAFTA than without it. I would emphasize, too, they took a very courageous step, which would be hard for anybody to do including ourselves, by shutting down the PEMEX refinery in Mexico City which was polluting the air in the worst way. That cost them actually 5,000 jobs. It was a very coura-

geous step and I think an example of the good environmental cooperation and the will to do the job that is fairly new in Mexico now.

Vice Chairman WARNER. Well, the more I hear about NAFTA, the more I believe it is not a free trade agreement but a panacea to everything. For that reason I'm keeping a very open mind. I have not made up my mind yet with respect to how I shall come down on this.

I thank the witnesses.

Mr. Chairman.

Chairman DECONCINI. Senator Graham, I want to call on you, but I want to thank you for suggesting we hold these open meetings on NAFTA as well as the closed ones that we've already had.

Senator GRAHAM of Florida. Thank you, Mr. Chairman.

Recently a delegation of heads of state from Caribbean Basin countries met with the President in support of NAFTA, but raising some concerns about the potential short run effect of NAFTA on their nations. Could you comment as to what you think the effect of NAFTA will be in the immediate period after its enactment on its CBI countries?

Mr. MOSS. Senator Graham, I believe that there could be four short range negative effects on the Caribbean because of NAFTA. These would be possibilities of trade diversion to Mexico, investment diversion, a possible relocation of productive facilities, and maybe an overall downturn of economic activity, which could add to the economic woes of the Caribbean precisely because NAFTA will look like a much more attractive investment vehicle than the CBI is able to.

For that reason, I have also in my prepared statement acknowledged your and Representative Sam Gibbons' proposed legislation for NAFTA parity, because I think it is very important to provide short terms relief. If NAFTA is passed, I hope the Caribbean will access into it and then the playing field will be made level for them, too. There is no particular point to disadvantage them in the short run. It's speculative, to be sure, but there are, I think, potential downsides for that particular region, of NAFTA implementation.

Senator GRAHAM of Florida. I wonder if either of the other two witnesses have any comments on the short range impact and some possible mitigation of that impact on the CBI countries?

Mr. REDING. Well, I agree very strongly with what Ambassador Moss has just said, and for precisely that reason I think it is imperative to try to pursue economic integration with the Caribbean as well, on the shortest possible time frame. And for that matter to extend that integration to other countries throughout the hemisphere. It is precisely for that reason, incidentally, that I am arguing we also need to look at the arrangements that form part of what is called the Inter-America System that are really essential to providing the kind of institutional framework for doing that.

Senator GRAHAM of Florida. Mr. Rhodes.

Mr. RHODES. I think the Ambassador covered the short term effects. My great hope, and I think the hope of the leaders of the Caribbean is that NAFTA will be extended, as is the hope I think of the leaders of most of the Latin American countries. And I think

that is the long term, positive side. Short term, there maybe some disruptions, etc. I think those can be worked out. But I think the long term is to make this eventually a hemispheric free trade zone.

Senator GRAHAM of Florida. Mr. Rhodes, you say you think some of the short run potential dislocations and investments side of production, trade, can be worked out. What would be your recommendations as to how they might be dealt with in the short term?

Mr. RHODES. Well, I think that one of the arrangements is to try and to have some sort of special arrangement between CARICOM and NAFTA. And the sooner, I think, the better. And that is one thing I think that should be looked at. In other words, a Caribbean free trade agreement, to see if there is some way you can get more immediate access there.

Senator GRAHAM of Florida. You each have spoken about the longer range movement from Mexico to a hemispheric free trade agreement. Some economists, Lester Thurow, for one, have raised the question as to the basic approach, that we are taking a series of free trade agreements as opposed to a comprehensive European Community model which deals with a variety of issues in addition to trade—political integration, social program integration, etc. Could you comment as to the model that we seem to be taking vis-a-vis the model that Europe has followed in terms of what it is likely to get us to in terms of a hemispheric community?

Ambassador Moss.

Mr. MOSS. Senator Graham, I think we haven't really determined whether it is going to be a hub and spoke model, a gradual merger of different regional arrangements, or, least likely, one constituent assembly in which we talk about hemisphere integration all at once. Clearly what the US is pursuing—and I think it is probably right for us to be doing so—is not a common market, as in the countries of the MERCOSUR, the four South American countries are doing, but simply a free trade agreement, which leaves each party free to negotiate other free trade agreements with other parties.

It also leaves countries free to access into NAFTA. And even though Chile has been promised by both the Bush and the Clinton Administrations that it will be next in line, it's never even been specified whether that is another bilateral free trade agreement, or formal accession into NAFTA. So I think that has yet be determined.

I would think personally that in certain cases—certainly with respect to the Caribbean and with respect to Central America—that accession directly into NAFTA through the accession clause makes the most sense, but that maybe beyond that, in the other group such as the Group of Three, the Andean Pact, the MERCOSUR, what will probably emerge is a strengthening of those regional organizations and an eventual integration of those movements with NAFTA.

Mr. REDING. My recommendation concerning ratification of the American Convention on Human Rights, and building up the Inter America System is really a step in the direction you are talking about. It's something that would be similar to what has already been done in Europe, not as part as the European community, but

through the Council of Europe, which is much broader than the European community. It encompasses all of Europe, not just the twelve countries of the community.

The Europeans have implemented the European Convention on Human Rights, which also has a European Commission on Human Rights and European Court of Human Rights, all of which has led to an effective Europe-wide regime of human rights. That means anyone, any citizen in any European country, now has recourse to a court in Strasbourg where they can get a hearing if their national processes don't afford them the due process they are required to have under the European Convention on Human Rights. It's part of a process of standardization to try to make sure that, for instance, a businessman can go anywhere in Europe and be assured that he will have the same rights that he has in his native country. And he will have the same day in court that he will have in his native country.

Mr. RHODES. Senator, I think you have a series of things I mentioned in my testimony going on, as you know, in Latin America. In a sense you have the Andean Pact, regional pacts, you have the MERCOSUR, you have the Caribbean, which we just talked about, you have the Central American Common Market, plus you have bilateral agreements between Mexico and Chile and now agreements between Mexico, Columbia, and Venezuela. So there are a whole series of possibilities about tying in, I think, to NAFTA. I believe perhaps, as I said earlier, I think Central America and the Caribbean should probably have direct access to NAFTA. I think a country like Chile wants to deal directly, on a one on one basis. And Chile is hoping very much to be the next country that will be allowed to enter. I think the MERCOSUR group maybe the last of them to come in. But I think there will be different ways for the different groups to access it.

But I think that once NAFTA is approved—and I am still optimistic it will be approved—I think these other things will follow on sort of case by case.

Thank you.

Senator GRAHAM of Florida. Thank you, Mr. Chairman.

Chairman DECONCINI. Gentlemen, thank you very much. I want to just follow up, if anybody can give me an opinion, on the question of the flow of drugs. Having been so critical of Mexico, in 1983 then-Senator Pete Wilson and I offered an amendment on the Floor that decertified Mexico because of its lack of cooperation. It didn't pass the House, so it didn't become effective.

That has changed so much, I wonder if any of you have any opinions? Realizing there is still corruption which is a big problem, is this for real, or in your opinion is this done in anticipation of enticing the United States into NAFTA ratification. Do you have an opinion, Mr. Rhodes?

Mr. RHODES. Well, I think some real progress is starting to be made. As an example, within the last couple of days—this week, in fact—the National Banking Commission of Mexico issued regulations on money laundering. I think this is a major, major step. And I think what's going on there is obviously happening with, among other things, NAFTA in mind.

Chairman DECONCINI. You think that will continue if NAFTA is ratified?

Mr. RHODES. Yes, because I think that the message has gotten across to Mexico.

Chairman DECONCINI. Mr. Reding, do you have an opinion?

Mr. RHODES. But this a very important situation that must be worked on and must be cleaned up.

Mr. REDING. I think obviously it will depend in great measure on the extent to which Members of Congress pursue the matter, make it a top item on the bilateral agenda from here on in. It will also obviously depend on the degree and rapidity with which Mexico moves towards a truly democratic process, with real checks and balances through which to be able to get at some of the corruption that is rooted in very high places.

Chairman DECONCINI. Ambassador?

Mr. MOSS. I agree with Mr. Reding on that. I think also, sir, if you look at a rejection of NAFTA and what that would symbolize politically to Mexico, I think we can expect a lot less collaboration together and a lot less consideration of our desires. Whereas I think if NAFTA is assured, I don't try to sell it—the Vice Chairman warned us against calling it a panacea; I don't think it is, it's not going to solve everything overnight—but the level and interaction of commissions and boards and committees that will be working between our two countries will foster a level of cooperation which will have its effect on the drug trade as well. I think it is going to be gradual and marginal, won't solve everything at once, but I think the trend line will at least be in a positive direction.

Chairman DECONCINI. Mr. Reding, just to finish up. From what I gather, you say here, "though under Carpizo there have been more indictments, we haven't seen the real pudding yet from the standpoint of convictions." For instance, the navy case you mentioned, though the secretary or the minister in charge of the navy wasn't indicted, an admiral and the head of the marines were indicted by Carpizo's special unit, which impress me. But of course I do not know their disposition or whether or not they will be brought to trial and whether there will be any convictions. But is that mostly your point? We have to see more than just indictments?

Mr. REDING. Exactly. Because there is an awful lot of show going on at this point for obvious reasons. There is a lot at stake in Capitol Hill and it is very important to try to persuade people. But it's important as well to think about the long haul.

Chairman DECONCINI. And you are skeptical because of the court system?

Mr. REDING. Yes. In face, one of the interesting things here is that on some of the attempted prosecutions—some of the prosecutions that Carpizo has tried to pursue, the courts have interfered. Judges have simply tossed out the charges. So you are talking about a level of corruption that is so ingrained in the system—in the judicial system, for instance—that it makes it very difficult to do anything.

Chairman DECONCINI. And you are satisfied that it is corruption that has tossed those out, not jurisprudence?

Mr. REDING. No, very clearly. In those cases, it was as clear as it could be. Unfortunately, what happens is you get judges being bought out by the drug mafia and sheltering the commanders of the federal judicial police who were once in their employment.

Chairman DECONCINI. Thank you.

Do you have a comment on that Ambassador Moss.

Mr. MOSS. I just want to comment, sir, that I think there is one thing we need to keep in mind, too, and that is the once taboo subject of corruption in Latin America is really out in the open. And what is called the CNNization of the world, all of Latin America can see this. They see examples of Venezuela and Brazil where President's have been disposed for corruption. Where in the headlines in the front page stories of the major Latin American newspapers, even in Argentina, corruption is coming out, its being openly talked about, openly discussed. This in itself, with or without NAFTA, I think will ultimately have its effect on Mexico as well and every other Latin American country where this is simply not a forbidden subject anymore but people are talking about it openly.

Chairman DECONCINI. Thank you. Yes?

Mr. REDING. The one difference being that in places like Brazil and Argentina, there is a functioning multi-party structure providing the checks and balances, which is what has made it possible to remove corrupt officials, as in the case of the impeachment of the President of Brazil.

Chairman DECONCINI. Mr. Rhodes, did you have a comment?

Mr. RHODES. Just to say I would agree with my colleagues on the point that corruption is now a subject out on the table. But I would say it is certainly out on the table now in Mexico. You read more about it than you did before. I don't think I would compare from one country to the next because that's very difficult. But I think the Ambassador is correct and I think that in itself is a very positive trend compared to where things might have been in the past.

Chairman DECONCINI. Gentlemen, thank you very much for your testimony. It is extremely helpful, and I appreciate your being here today.

The Committee will stand in recess.

[Thereupon, at 4:02 o'clock p.m. the Committee was recessed, subject to the call of the Chair.]

ISBN 0-16-046907-4

